Playing our part...

True to our word and dear to your heart

National Savings Bank

Annual Report 2020

NSB

Playing our Part...

True to our word and dear to your heart

The global COVID-19 pandemic upset the status quo to life and enterprise during the year gone by, more than any other phenomenon in the recent history.

National Savings Bank stepped up to the plate to fully support our customers. We ensured customers had access to the Bank and its services across all branches in the network even at the height of lockdown, whilst implementing a host of other measures that served to take banking to the doorstep of the customer. The manner in which NSB employees faced the challenge of driving these initiatives, against trying odds was truly praiseworthy and their efforts commendable.

Another boon to customers is embodied in the fact that over 90% of our customer loans received moratorium. Customers showed their confidence in the strength of the Bank as vindicated by significant growth in our deposit base and loan portfolio.

In this "COVID era" the Bank moved even further along its digital banking pathway helping to mitigate impacts on connectivity with customers and product and service delivery.

NSB approaches its 50th year of operations in 2022. We are confident that we are well positioned to grow business in step with the emerging new customer and economy of the future.

We will continue to play our part, remaining true to our word and dear to the hearts of our customers.

NSB

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Our Vision

The most reliable and sought-after choice for savings and investment solutions.

Our Mission

Providing our customers with total financial solutions to optimise their savings and investment needs, while meeting the expectations of all our stakeholders.

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Our Values

In conducting our day-to-day business we will respond promptly and act creatively with trust, mutual respect and integrity.

Highlights

Financial Highlights

Table 01

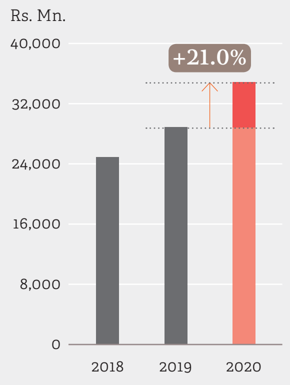
	Bank			Group		
	2020	2019	Change %	**2020**	2019	Change %
Results for the year (Rs. Mn.)						
Gross income	**127,547**	121,929	4.61	**130,039**	125,810	3.36
Profit before financial VAT and taxation	**19,431**	15,659	24.09	**20,798**	18,487	12.50
Profit before taxation (PBT)	**15,645**	10,462	49.54	**16,791**	13,092	28.26
Income tax expenses	**5,537**	4,080	35.69	**5,970**	4,379	36.34
Profit after taxation (PAT)	**10,108**	6,381	58.40	**10,821**	8,713	24.20
Position at the year end (Rs. Mn.)						
Shareholders' funds (total equity)	**51,897**	45,925	13.00	**57,449**	49,382	16.34
Due to other customers/deposits from customers	**1,237,124**	1,016,574	21.70	**1,237,669**	1,015,635	21.86
Financial assets at amortised cost – debt and other instruments (gross)	**798,916**	647,777	23.33	**816,029**	662,272	23.22
Gross loans and receivable	**525,787**	458,662	14.63	**528,405**	462,440	14.26
Total assets	**1,363,808**	1,157,967	17.78	**1,383,221**	1,175,575	17.66
Information per ordinary share (Rs.)						
Earnings (basic)	**10.75**	6.79	58.40	**11.51**	9.27	24.20
Earnings (diluted)	**10.75**	6.79	58.40	**11.51**	9.27	24.20
Net assets value	**55.21**	48.86	13.00	**61.12**	52.53	16.34
Ratios (%)						
Net interest margin (NIM)	**2.77**	2.63	5.32	**2.83**	2.65	6.80
Return on average shareholders' funds (ROE)	**20.67**	14.25	45.07	**20.26**	18.52	9.36
Return on average assets (ROA)	**1.24**	0.95	30.15	**1.31**	1.18	11.62
Year on year growth in earnings	**58.40**	41.80	39.72	**24.20**	93.61	(74.15)
Regulatory liquidity ratio (%)						
Statutory Liquid assets – Minimum requirement 20%	**69.10**	60.2	14.78	**N/A**	N/A	–
Rupee – Minimum requirement (2020 – 90%, 2019 – 100%)	**311.02**	278.12	11.83	**N/A**	N/A	–
All currency – Minimum requirement (2020 – 90%, 2019 – 100%)	**307.22**	276.64	11.05	**N/A**	N/A	–
Net Stable Funding Ratio – Minimum requirement (90%)	**168.54**	175.18	(3.79)	**N/A**	N/A	–
Regulatory capital requirements: Basel III (%)						
Tier – 1 – Minimum requirement (2020 – 8%, 2019 – 8.5%)	**13.65**	13.49	1.16	**15.57**	15.37	1.30
Total Capital – Minimum requirement (2020 – 12%, 2019 – 12.5%)	**16.45**	15.82	3.95	**18.30**	17.74	3.16
Leverage Ratio – Minimum requirement (3%)	**6.64**	5.76	15.35	**7.21**	6.16	17.05

Financial Goals and Achievements – Bank

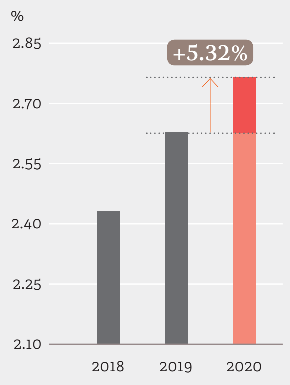
Financial Indicator	Goals	Achievement				
		2020	2019	2018	2017	2016
Net interest margin (NIM) (%)	2.65	**2.77**	2.63	2.43	2.61	2.89
Return on average assets (ROA) (%)	0.95	**1.24**	0.95	0.78	1.47	1.51
Return on average shareholders' funds (ROE) (%)	15.82	**20.67**	14.25	10.95	27.24	29.37
Growth in income (%)	2.76	**4.61**	8.96	3.62	23.57	10.24
Growth in profit for the year (PAT)	6.86	**58.40**	41.80	(53.68)	2.30	9.52
Growth in total assets (%)	14.22	**17.78**	11.68	2.56	10.89	7.50
Capital Requirements: Basel III						
Tier – 1 – Minimum requirement (2020 – 8%, 2019 – 8.5%)	Over 8%	**13.65**	13.49	13.08	11.93	11.31
Total Capital – Minimum requirement (2020 – 12%, 2019 – 12.5%)	Over 12%	**16.45**	15.82	15.90	15.31	13.86

Highlights

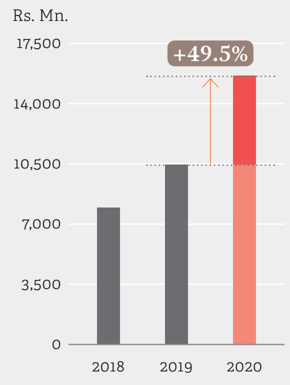
Net interest income



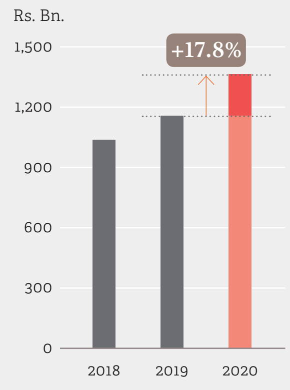
Net interest margin



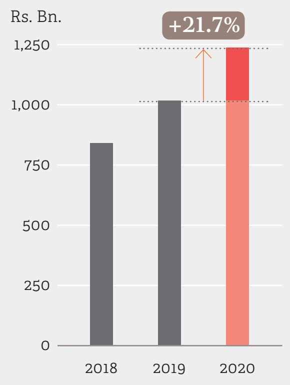
Profit before tax



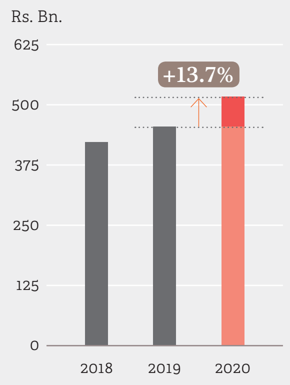
Total assets



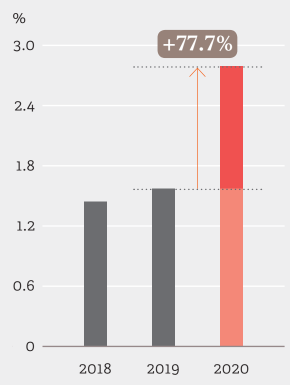
Total deposits



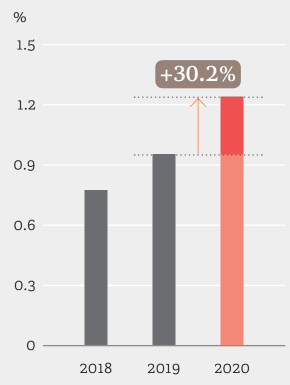
Loans and advances



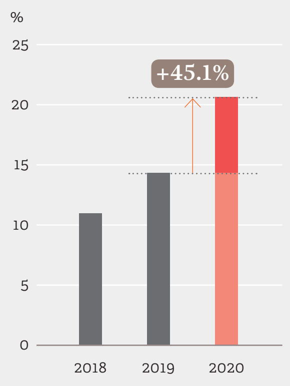
Gross non-performing assets ratio



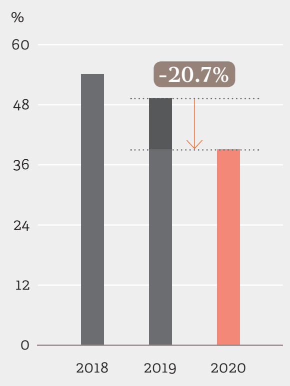
Return on assets



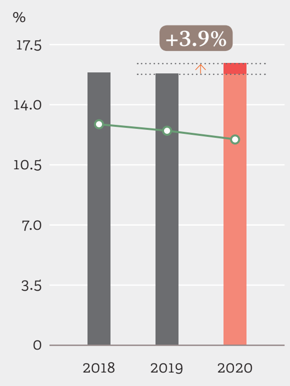
Return on equity



Cost to income ratio

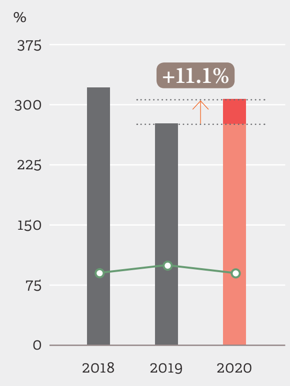


Total capital adequacy ratio



Total capital adequacy ratio
Minimum requirement

Liquidity coverage ratio



Liquidity coverage ratio (All currency)
Minimum requirement

Figure 01

Chairperson's Message

The fundamental nature of the pandemic was exogenous to the banking sector. As a result of the implementation of prudent regulatory requirements, the Bank was well placed with capital and liquidity buffers at the outset of the pandemic, and maintained levels well above regulatory minimums throughout 2020.

In 2020, the world faced the crisis of a generation. The COVID-19 virus emerged in late 2019 and spread across the globe during the year under review, resulting in a pandemic unlike any in living memory. As of March 2021, the virus has infected over 115 million people and claimed over 2.5 million lives. The pandemic triggered a worldwide recession and these shocks were transmitted to the Sri Lankan economy, which had already endured a difficult year in 2019 due to Easter Sunday attacks. After a contraction of 1.8% in the first quarter of 2020, the country's economy experienced its largest ever contraction of 16.4% in the second quarter. Nevertheless, the third quarter marked a recovery, with the economy growing by 1.3% as activities returned to near normalcy. Despite some positive signs towards the end of the years, the economy has contracted by 3.6% in 2020. It was indeed a difficult year for the country, and challenging times lie ahead.

During moments of crisis, our essential identity and mission came to the fore. NSB, an institution entering its 50th year of operations, stands as the largest and safest specialised bank in Sri Lanka, and is the only such institution in the country backed by 100% explicit Government guarantee. By fostering the savings habit, the Bank promotes personal wealth creation; and by acting as a financial intermediary on national scale, it productively channels savings into investment for the development of the country's economy. As one of the biggest lenders in the housing market in Sri Lanka, the Bank facilitates the growth in national home ownership, opening a pathway towards economic security and mobility for hundreds of thousands of customers. Beyond contributing to the General Treasury by way of taxes, levies, fees and dividends, and being the second largest holder of Government Securities, the Bank is one of the biggest lenders to the Government and is an enthusiastic partner in the Government's long-term infrastructure and socio-economic development projects.

These elements of our identity are a source of great pride. But with that pride comes a deep sense of responsibility to our customers, stakeholders, and the wider society to play a role in the country's economic recovery from the COVID-19 pandemic, both in supporting Government measures and through the Bank's own initiatives.

Against this backdrop of COVID-19, the performance of the Bank over the year was characterised by strength and resilience. Our total asset base grew by 18.0% to Rs. 1.4 Tn. as at 31 December 2020 from Rs. 1.2 Tn. as at 31 December 2019. The Bank recorded its highest ever Profit Before Tax and Profit After Tax in 2020, both of which were aided by the Government's stimulus initiatives introduced in late 2019. Consequently, the Bank's profit before tax of Rs. 15.6 Bn., a 49.5% increase from Rs. 10.5 Bn. in 2019 was mainly due to the increase in Net Interest Income and supported by the removal of the Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on financial services. Resultantly, the Bank's Profit After Tax of Rs. 10.1 Bn. recorded a 58.4% increase from Rs. 6.4 Bn. in 2019. A dividend of Rs. 1.0 Bn. was paid for the financial year under review.

The safety and security of our customers' savings is the bedrock of our institution and the key element of our value proposition. As a result, the Bank has a long-standing culture of operating ethically and with integrity, astute corporate governance, and effective risk management and capital and liquidity management. During the year under review, the Board of Directors was required to focus their efforts on the rapidly changing environment due to the pandemic, and provide timely guidance and insight during the times of uncertainty. The Board ensured that while the Bank pivoted swiftly towards the "new normal", it did so while always adhering to internal controls and regulatory standards. Especially vital was for the Board to provide direction in managing increasing NPLs in line with the Bank's prudent risk appetite and status as having one of the lowest NPL ratios in the industry.

The fundamental nature of the pandemic was exogenous to the banking sector. As a result of the implementation of prudent regulatory requirements, the Bank was well placed with capital and liquidity buffers at the outset of the pandemic, and maintained levels well above regulatory minimums throughout 2020.

In 2021 and the following years, the Bank will focus on an ambitious mid-term strategy of spearheading Government initiatives in the post-pandemic revival of enterprises and entrepreneurs in the country, and, as such, is seeking to diversify its sources of funding. During the year under review, the Bank raised Rs. 5.0 Bn. through the issuance of a perpetual debenture. This is the first time in the history of a savings bank that a hybrid debt instrument of this nature and magnitude was issued in the Sri Lankan capital market. The proceeds of this issue will augment the Bank's Additional Tier 1 capital and enable the Bank to provide long-term funding for infrastructure projects. In addition, the groundwork for a USD 35 Mn. loan was put in place during 2020, and completed in February 2021. It is important to note that the Bank also maintained its accreditation of [SL] AAA (Stable) credit rating by ICRA Lanka.

Digitalisation has been a key focus area for the Bank. The demand for digital products and services during the pandemic has acted as a catalyst, driving our digital transformation forward. During the lockdowns, our digital offerings allowed customers to have uninterrupted access to our services from the safety of their homes. But the pandemic has also revealed areas for improvement, and we are tailoring our strategy accordingly in the years ahead.

We believe that the promise of digitalisation is not about technology for technology's sake. Even beyond the benefits of streamlining operations, enhancing productivity, and realising cost efficiencies, we approach digitalisation in a way that deeply resonates with our brand: as a tool for financial inclusion and democratisation. With the advent of smartphones, there is potential to connect and involve more and more segments of the population within the digital space. And this question of accessibility is at the heart of the digital value proposition that we are building at the Bank – allowing all our stakeholders, no matter what strata or location, to benefit from the rapid technological advances that are underway.

The year ahead will be crucial. We will work closely with the Government and regulators to ensure that our customers are supported, and that we help spur credit growth and investment as part of the economic recovery. The Board of Directors will continue to focus on maintaining our strong balance sheet to target growth opportunities and support our customers' aspirations despite the challenging operating environment. The risk and corporate governance landscape are changing rapidly, and corporate conduct is increasingly under scrutiny. Managing credit quality and risk in the coming year, when moratoriums periods expire and the true NPL position of the sector becomes apparent, will be at the top of our priorities. As profit margins shrink and the sector becomes more competitive, it is more essential to remain true to our values and mission. The Board seeks to play an active role in providing sound stewardship and guidance as we confront the coming year with resolve.

I wish to thank my colleagues on the Board of Directors for their insight and support during an extremely challenging year. In 2020, our Corporate Management team and staff have defined what loyalty and dedication truly mean. In stressful and taxing situations, they continued to respond to the needs of our customers, representing the Bank with the qualities that are our hallmark. Our people truly are the foundation on which our success is built, and we will rely on them to drive our success in 2021. Our customers, too, have my deepest gratitude. Their continued confidence in us reaffirms our sense of purpose.

I am grateful to the continued support and assistance extended by the Hon. Prime Minister and Minister of Finance and the Hon. State Minister of Money and Capital Market and State Enterprise Reforms. I wish to thank the former Acting General Manager/CEO, Ms Damitha Rathnayake who led the Bank during the difficult time posted by the COVID-19 pandemic and the first lockdown. I appreciate the support and guidance extended by the Secretary to the Treasury and the officials, the Governor and officials of the Central Bank of Sri Lanka. My deep appreciation is extended to the Postmaster General, and the officials of the Postal Department, for the vital assistance provided to NSB across the island. My appreciation is extended to the Attorney General and the Auditor General.

Keasila Jayawardena

Keasila Jayawardena
Chairperson

19 March 2021

General Manager/ CEO's Review

The Bank recorded its highest ever profit before and after tax. Profit Before Tax was Rs. 15.6 Bn., a 49.5% increase from Rs. 10.5 Bn. in 2019, and Profit After Tax was Rs. 10.1 Bn., a 58.4% increase from Rs. 6.4 Bn. in 2019.

Amid an unprecedented operating context across 2020, the Bank recorded a resilient performance that reflected our unique strengths and mission. During the year under review, the Bank recorded its highest ever profit before and after tax. Profit Before Tax was Rs. 15.6 Bn., a 49.5% increase from Rs. 10.5 Bn. in 2019, and Profit After Tax was Rs. 10.1 Bn., a 58.4% increase from Rs. 6.4 Bn in 2019. These figures were boosted by the 21.0% increase in Net Interest Income and removal of the Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on financial services. Nevertheless, the highest-ever profit was achieved after making an impairment provision of Rs. 4.9 Bn., a 761.8% increase over the 2019 figure of Rs. 566 Mn. The higher impairment provision reflected the elevated risk in the loan and advances portfolio and tenuous state of asset quality in the banking sector.

The Bank recorded a growth in deposit mobilisation of Rs. 221.9 Bn. during the year, an increase of 29.5% from Rs. 171.4 Bn. in 2019. This represents the Bank's highest ever annual deposit mobilisation, resulting in the deposit base topping Rs. 1.2 Tn. This increase was propelled by the decline in discretionary spending due to the pandemic, amidst the lower interest rates along with a movement of deposits from the Non-Bank Financial Institutions (NBFI) sector to the banking sector. Assets grew by 17.8% to reach a base of Rs. 1.4 Tn.

The Bank's Net Interest Income (NII) increased due to a timely repricing of liabilities in relation to assets, and the Bank also recorded an increase in net fee and commission income. The Bank's profitability was enhanced by favourable changes to the deposit mix with the savings deposits to total deposits ratio increasing to 22.6% in 2020 from 21.5% in 2019, providing the Bank with a source of low-cost funding.

While the above figures demonstrate the solid performance of the Bank, a deeper dive into the numbers must consider the context of the year. During the first wave of COVID-19 infection in late March 2020 and the ensuing lockdowns, all the Bank's branches across the country were kept open to offer an uninterrupted service to our customers. The Bank also allocated three mobile units to provide its customers with service at their doorstep.

As the year went on and the emphasis of the banking sector shifted to offering financial relief and support for recovery, the Bank granted debt moratoriums and payment deferments to all its customers (except for customers that explicitly opted out of the above concessions). As a result, over 90% of the total retail loan portfolio of the Bank came under moratorium (at the concessionary rate of 7.0%, with installments deferred until the end of the loan period). The Bank also provided customers who requested relief with interest rate reductions of up to 10% for their existing loans. Due to these concessions, the Bank forwent Rs. 3.6 Bn. of interest income.

The Bank disbursed Rs. 124 Bn. in housing and personal loans to over 100,000 customers in 2020. This represents the Bank's highest ever annual loan disbursement both in terms of number of loans and total amount and is around a 100% increase in both number and amount of loans given over 2019 figures.

Further, the Bank has introduced a special housing loan scheme for permanent employees in the public and private sectors to support the expansion of home ownership of the Sri Lankan public at the lower rate of 7% per annum as per the instructions given by CBSL. Moreover, in accordance with 2021 Budget of the GOSL, the Bank implemented the "*Sonduru Kedella*" Housing Loan for low-income earners with the view to purchasing housing units from housing schemes that will be developed by relevant government authorities at lower interest rates.

These aspects of our performance underscore the fact that as a state bank, and the largest and safest specialised bank in the country, we take our duty to do everything in our capacity to help our customers very seriously. As such, NSB's concept of sustainability is necessarily broad and multi-dimensional, and deeply integrated into our corporate strategy and business model for creating value in the short, medium, and long term. While such a concept includes inculcating social and environmental best practices in our own operations, it more broadly involves understanding the Bank's role as a national financial intermediary. Now, more than ever, the Bank is holding strong to its fundamental mission: sound capital and liquidity management; practising responsible lending; conducting business with fairness, transparency, and integrity; creating meaningful social impact by promoting financial inclusion, particularly for the unbanked and underbanked; and providing essential long-term credit to the government for major projects. The concept of sustainability, for the Bank, thus means playing an important role in the country's recovery from the pandemic.

During the year under review, the Bank disbursed Rs. 31.4 Bn. in loans for infrastructure projects to State Owned Enterprises, primarily the Road Development Authority, the National Water Supply and Drainage Board and Ceylon Electricity Board. Importantly, the Bank also positioned itself to finance further long-term projects in the future through two initiatives during 2020 that diversified the Bank's sources of funding. First, the Bank raised Rs. 5.0 Bn. through the issuance of a perpetual debenture. By enhancing the Bank's Additional Tier 1 capital, the Bank is well positioned to increase its lending capacities for both government and retail lending. Second, the Bank commenced laying the foundations for a USD 35 Mn. loan, finalised in early 2021, that will also help drive the Bank's asset growth.

When the need for remote banking was greater than ever during the year, NSB's ongoing investments in digital technology continued to benefit customers – and the Bank's digital platform and other digital banking services were used more extensively than ever before. But the heightened demand and use of digital products and services also served as a reality check, allowing the Bank to identify areas of improvement and future needs. Providing a superior customer experience is not only about building powerful front end digital platforms but creating efficient end-to-end solutions where back-office processes are also automated and streamlined. While the contingent nature of the year allowed for few major changes, the Bank used this opportunity to lay the groundwork for four key strategic objectives for 2021:

(a) Implement the New Core Banking System, with all services reengineered to align with industry requirements and regulatory requirements;

(b) build a state-of-the-art primary data centre based on TIA 942 (Tier III) international standard for data centres, which will improve the reliability and availability of IT enabled banking services, in turn improving both customer satisfaction and internal service excellence;

(c) Launch an industry leading Mobile Payment App; and

(d) Implement a fully automated secure digital platform.

With these four objectives completed, together with corresponding internal talent and capacity development, the Bank will be positioned at the forefront of the digital banking space and be able to capitalise on its distinctive identity. The rate of digital adoption, for a range of reasons, is highly variable across different strata and geographical locations in Sri Lanka. While the Bank wants to encourage digital banking, the key is to recognise that people need to be committed to and confident about this change. In many parts of the country, having a physical connection with a bank branch or touchpoint is an important stepping stone towards digital adoption. With a branch network exceeding 4,000 touchpoints across the island, including physical branches, postal and sub-post offices, and ATM/CRM touchpoints, the Bank is in a unique position to drive digitalisation.

During the year under review, the Bank's data centre (which was designed and built by N-able) received the Tier III certification, a first for the banking sector in the country. The data centre is a further step towards increasing transaction reliability and speed, and maintaining zero downtime for the Bank's day-to-day IT transactions. The Tier III certified Data Centre is expected to significantly enhance the Bank's digital banking services by making the system available at any time to end-users as well as staff. The certification is testament to the data centre's ability to stand up to real-world challenges and support the many IT requirements of the Bank for years to come.

New technologies are impacting customer behaviour and their patterns of banking. A constantly learning workforce that is adaptable to these changes is a key competitive advantage and re-skilling is therefore, a strategic imperative for the Bank to remain relevant. The Bank will remain mindful of new competitors like Fintechs, and new costs and investments like shifting to the Core Banking Solution and new digital solutions for remote work.

General Manager/ CEO's Review

Fundamentally, technological change needs to be accompanied by effective and insightful change management to transform internal processes and attitudes. Next year will be crucial in taking a leap forward in our digital strategy.

Undoubtedly 2021 will be a challenging year, both for the Bank and the country. The Bank will work with the Government and regulators to ensure that our customers will be supported during these critical times. A low interest rate environment and new loan schemes, coupled with the easing of the pandemic through vaccinations, is expected to boost credit growth in all sectors of the economy. This will create demand for short-term loans, and there is also potential to improve deposit mobilisation, broadening the Bank's low-cost savings base.

But a clearer picture of the credit quality and NPL position of the sector will become apparent only in 2021, and the Bank will be prepared to deal with credit losses and other adverse scenarios. Increasing NPLs means that recovery strategies will need to carefully balance support for the customers, reputational risks for the Bank, an evolving regulatory environment, and the Bank's bottom line. Net interest margins will remain compressed as interest rates remain low or fall further, and repricing risks may arise with any changes in the rates. There is some concern that fee income may fall as a result of lower consumer spending in retail businesses, but, at the same time, the Bank will alter its business model to focus on non-fund-based income to promote the organic growth of the Bank. To weather what storms may come, the Bank is focused on developing its business and operational resilience and planning for long-term performance.

What remains important, however, is that when presented with changes in the environment and new risks, NSB remains guided by our essential values and mission.

While the shape of banking will change – and we will adapt to it – our responsibilities and our commitment to our purpose will remain steadfast.

The full extent of the changes to our operations necessitated by the pandemic required complete buy-in from our staff, and I want to acknowledge here the dedication and grit displayed by our team throughout the year. Just as any member of the public, our staff had to confront feelings of anxiety and uncertainty as their life and work were thrown into disarray. Nevertheless, they remained committed to our customers, and continued to provide the service for which NSB is renowned.

The Bank, in turn, felt it was vital to do everything in its power to create an environment which was free of stress to empower our staff. Where possible, the Bank provided remote working options. When physical presence was required, the Bank provided transport for staff working in branches in areas under lockdown (or reimbursed transport costs). The Bank provided staff with masks and sanitisers, and implemented social distancing and other best health and safety practices through its branch network. While in-person training was curtailed, the Bank conducted webinars and other online training programmes. Furthermore, the Bank paid full salaries and non-salary benefits to employees throughout the year, affirming that our people are central to our success, and we will continue to honour our commitments to them.

I thank our customers for their loyalty and patronage throughout this most difficult of years. The Board of Directors was a source of support and sound, astute stewardship during this crisis, and their efforts are much appreciated. I extend my appreciation to Ms Damitha Rathnayake, the former Acting General Manager/CEO of NSB for her valuable contribution to the Bank. I deeply appreciate the tireless efforts and dedication of the management team and the staff members. To the Postmaster General of postal, and all officials of the Department of Posts, I would like to extend my deep appreciation for the assistance provided to NSB across the island. I express my gratitude to Hon. Prime Minister and Minister of Finance, the Hon. State Minister of Money and Capital Market and State Enterprise Reforms, Secretary to the Treasury and the Officials, the Governor and Officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General and his team, Heads of other regulatory bodies, and their teams for their continued support and guidance.

M P A W Peiris

General Manager/CEO

19 March 2021

Operating Environment

Global economy

An Unprecedented Crisis

The year 2020 was defined by the COVID-19 global pandemic, which has been nothing short of a once-in-a-generation cataclysmic event. The outbreak of the virus is believed to have originated in China in November 2019, and spread swiftly around the world in Q1 2020. As of March 2021, over 115 million people have tested positive for the virus, and the death toll has surpassed 2.5 million – though estimates suggest that actual figures may be much higher.

The health crisis brought about by the pandemic was a massive, abrupt exogenous shock to the global economy, and triggered a recession of a magnitude unseen since the two World Wars and the Great Depression of the previous century. Curbing transmission requires public health measures like social distancing and mobility restrictions, but attempts to drive aggregate demand in such an environment are difficult and stuttering. Furthermore, service sectors based on face-to-face social interaction, such as retail trade, arts and entertainment, and hospitality, have experienced more significant contractions. Global travel and tourism came to a standstill with the closure of airports and travel restrictions, striking a massive blow to economies dependent on tourism and services.

Despite various initiatives taken by governments to retain employees, unemployment has risen sharply during the pandemic. The International Labour Organisation (ILO) estimates that as of 2020, there has been an 8.8% loss in working hours compared to a pre-crisis baseline at the end of 2019, equivalent to a loss of 255 million full time workers. Again, the sudden, exogenous shocks to economies had idiosyncratic effects. In prior recessions, unemployment rose gradually over the course of the economic downturn and then peaked before subsiding. But during the present crisis, in the US, for example, unemployment rose sharply from 3.5% in February 2020 to an unprecedented level of 14.7% in April, a mark higher than during the Great Recession (December 2007 – June 2009). It subsequently declined over the course of the year to fall to 6.7% in December, which was still higher than its pre-pandemic level.

Already vulnerable segments of the world population have borne the brunt of the crisis, with women, youth, workers in high-contact sectors, and the informally employed (who, according to ILO estimates, comprise 60% of the global workforce) suffering the most severe losses of livelihood and income. Widespread school closures in parts of the world have inflicted setbacks on human capital development, and the effects on a generation of youth remain to be seen. Projections suggest that as many as 100 million people will fall into extreme poverty, deepening economic and structural inequalities, and wiping away decades of progress in poverty alleviation.

Positive news on the development, manufacture and roll out of vaccines raised hopes towards the end of the year for a swifter conclusion to the pandemic in 2021. Such sentiment has the potential to boost consumption, driving, in turn, investment and employment to meet rising demand. However, a successful recovery of the economy is only feasible if COVID-19 vaccines are made available globally as a public good and if all countries manage to contain the pandemic simultaneously. The uneven, disproportionate access to vaccines, the logistical challenges of delivering billions of vaccines across the world, and the quality of vaccination programmes in different countries are all hurdles that must be overcome. Furthermore, forecasts are complicated by the emergence of new strains of COVID-19 in South Africa, UK, and elsewhere. Ultimately, the timeline for recovery, and the shape and persistence of the scars left by the recession, remains clouded by uncertainty.

Operating Environment

Global Growth

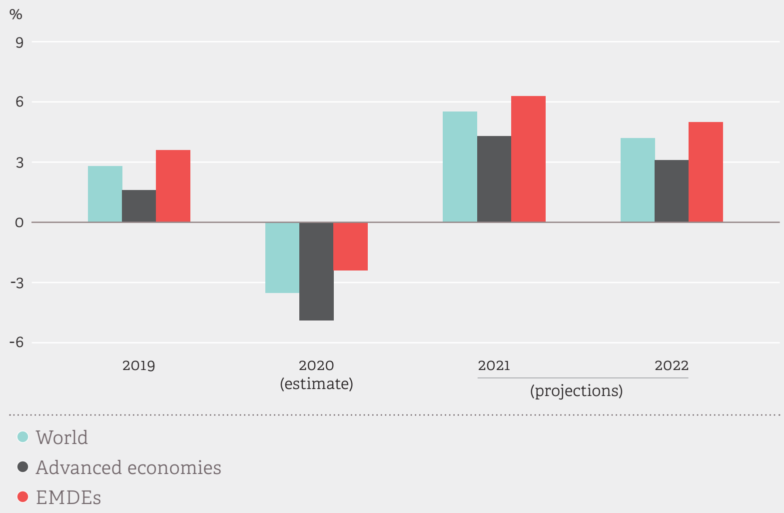
After stronger than expected momentum in the second half of 2020, the International Monetary Fund (IMF) estimates global economic growth in 2020 to have contracted by 3.5%, an upwards revision of 0.9% from third-quarter projections last year. (This is against IMF's pre-pandemic January 2020 projections that the global economy will grow by 3.3% in 2020.) The global economy is projected to rebound with 5.5% growth in 2021 (an upward revision of 0.3%) and then moderate to 4.2% in 2022.

The anticipation of the widespread availability of vaccines by summer 2021, coupled with the continuation of strong policy support, has suggested that output losses compared with the pre-COVID forecast is smaller for advanced economies than other countries. Recovery to end of 2019 activity levels will diverge widely, with USA and Japan projected to reach those levels in the second half of 2021, while the Euro Area and the UK will take until 2022. Nevertheless, resurgence of economic activity among advanced economies is expected to have favourable spillover effect on trading partners.

Emerging market and developing economies (EMDEs) are also projected to trace different recovery trajectories, with considerable differentiation between China and other EMDE's. China's exceptional recovery has been facilitated by robust containment measures, strong public investment, and central bank liquidity support. However, in economies that rely heavily on external sources of growth, such as manufacturing, exports, and tourism, the recovery is likely to be modest.

Global economic growth

Graph 01



Source: World Economic Outlook Update – January 2021, International Monetary Fund

Global Debt

Globally, public finance faced a bumpy ride in 2020. The undermining of economic activity affected both the revenue and expenditure elements of the budget. Fiscal vulnerabilities of developing countries that have been piling up for some time were elevated with the pandemic, particularly in low-income countries.

Global government debt is estimated by Fitch to have increased by about USD 10 Tn. in 2020 to USD 77.8 Tn., equivalent to 94% of world GDP as governments boosted spending on health sectors and providing support to households and businesses, shored up their economies roiled by the fallout from the coronavirus pandemic. Advanced economies recorded the largest increases in debt, followed by emerging market and middle-income economies and low-income developing countries. Considering the scaling back of pandemic-related measures and given the projected recovery, public debt, on average, is expected to rise modestly in 2021 and stabilise over the medium term. Large debt levels put governments, corporates and households at a higher risk during economic downturns as they are required to service debt.

The COVID-19 global recession and economic policy response have triggered a surge in debt levels in emerging market and developing economies (EMDEs). Even prior to the pandemic, the situation was precarious: Global debt had risen to a record high 230% of the GDP in 2019 and government debt to a record 83% of the GDP. Total debt in EMDEs reached 176% of the GDP in 2019, largely driven by private debt, which rose to 123% of the GDP. The pandemic has only exacerbated this "fourth wave" of debt accumulation, raising concerns about debt sustainability and the possibility of a financial crisis. In 2020, government debt among EMDEs is expected to rise by 9% of the GDP in 2020, the largest increase in over 30 years. Highly indebted EMDE's also recorded a sharp rise in their sovereign bond spread, leading to capital outflows.

Source: Global Economic Prospects Jan 2021 by World Bank

Supportive Financial Conditions

Swift and aggressive accommodative monetary, fiscal and financial sector policies did much to stem the tide in 2020. The uncertainty due to such an unprecedented pandemic has also increased the need for liquidity. In response to this need, central banks worldwide tried to support financial markets and the real economy by taking steps in coordination with public authorities.

Many central banks have taken actions to provide further monetary policy accommodation to provide ample liquidity to ensure well-functioning markets. In light of global market contagion, recent actions by central banks to lower policy rates and extend bond purchasing programmes and special crisis facilities are important steps to address these liquidity challenges. Altogether, there were 207 policy rate cuts by central banks to support economies in 2020, when the world was put in the "Great Lockdown".

Across the world, other economic stimulus initiatives included debt moratoriums for businesses affected by the pandemic, government subsidised low-cost credit facilities, and price restrictions to control the cost of living. In concert, these policies helped bolster business confidence, increase credit expansion, drive consumer spending, and stave off a wave of bankruptcies.

In addition, international regulatory bodies have called upon national authorities to lower countercyclical capital buffers, and use post-crisis regulatory tools in an appropriately flexible manner. Such measures could give the financial sector confidence to make use of increased balance sheet availability from reduced capital buffers, and credit – through government loans, guarantees, or central bank facilities – could effectively address solvency concerns of viable businesses to overcome the economic effects of COVID-19.

Major central banks are expected to maintain their current policy rate stances for the foreseeable future. Consequently, financial conditions are projected to remain stable for advanced economies while progressively improving for emerging market and developing economies.

Inflation	Global Trade
Subdued inflation is expected to be seen across 2021/22, with advanced economies projected to remain below 1.5% and emerging market and developing economies at just over 4.0%, which is lower than the historical average of the latter group.	As the global economy recovers, global trade volumes are projected to grow by around 8.0% in 2021. The recovery of services trade is expected to be slower, as cross-border tourism and business travel will be subdued until the spread of COVID-19 is curtailed.

Source: World Economic Outlook Update – January 2021, International Monetary Fund

Commodity Markets

The demand for oil fell rapidly in 2020 with the closure of businesses and travel restrictions. In the first half of 2020, responses to the COVID-19 pandemic led to steep declines in global petroleum demand and to volatile crude oil markets. As petroleum demand fell and US crude oil inventories increased, West Texas Intermediate (WTI) crude oil traded at negative prices on April 20, the first time the price for the WTI futures contract fell to less than zero since trading began in 1983. The next day, Brent crude oil, another global crude oil price benchmark, fell to USD 9.12 per barrel (b), its lowest daily price in decades.

With demand beginning to return after April, crude oil prices increased. At the end of 2020, crude oil prices began to increase as markets responded to news of several COVID-19 vaccine rollouts and to the announcement from members of the Organisation of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+) that they would limit production increases in 2021. Oil prices are expected to rise in 2021 by just over 20% from 2020, but will still remain well below their average for 2019.

The uncertainties of the pandemic led to a shift towards safe-haven assets. As a result, gold prices rose over 24% and was trading at an average of USD 1,769.64/oz. Non-oil commodity prices, especially metals, are also projected to accelerate in 2021 as the economic recovery gains momentum.

Equity Markets

Equity markets underwent significant upheaval in 2020. Global stock markets saw their fastest decline in history in February and March, which was ultimately arrested and reversed due to the commitment of major central banks to maintaining an accommodative monetary policy.

US equities outperformed European markets. The Dow Jones 30 industrial gained 3.3% in December (MoM) and 7.2% over 2020, and the NASDAQ Composite rose by 5.7% in December (MoM) and gained 43.6% over 2020. In the Euro Zone, Euro STOXX 50 gained 1.7% in December (MoM), but, at year's end, was 5.1% lower than at the end of 2019.

Asia Pacific markets had a mixed year in 2020. The recovery of emerging markets picked up steam in the fourth quarter of 2020 due to COVID-19 vaccine breakthroughs and the outcome of US election. Furthermore, the MSCI Emerging Markets Index outperformed (14.9%) the global developed market equities in 2020.

Operating Environment

Sri Lankan Economy

Sri Lanka has recorded below-potential economic performance over the past few years, a situation exacerbated, in 2019, by the Easter Sunday attacks. There was hope that the Presidential elections, held in November 2019, and the Parliamentary elections, scheduled to be held in early 2020 but then postponed until August, would improve consistency and predictability in policymaking, raising business and investor confidence. In late 2019, the new administration introduced a massive fiscal stimulus package with a view towards driving aggregate demand and consumption, production, and economic growth. In addition, a bundle of incentives, including moratoriums, were extended to reinvigorate sectors most affected in the aftermath of the Easter Sunday attacks, including construction, tourism, and SMEs.

But just as the economy was showing signs of recovery at the start of 2020, the pandemic struck. Sri Lanka reported its first COVID-19 case on 15 February 2020; the year ended with total cases reaching 43,299. The spread of the virus during the first wave of infections was slow, but it grew exponentially in the second wave in Q4 2020. Measures taken to curtail the spread of COVID-19 in the first wave, such as countrywide lockdowns, restrictions on mobility, and social distancing mandates, hindered production and productivity. These domestic disturbances to economic activity were intensified by the transmission of downward trends in the global economy, leading to Sri Lanka's economy experiencing its largest ever contraction of 16.4% in Q2 2020 (after a contraction of 1.8% in Q1).

Unprecedented fiscal stimulus and monetary easing initiatives by the Government and the Central Bank of Sri Lanka (CBSL), respectively, together with larger than expected remittances from migrant workers and lower global oil prices, led to a recovery of 1.3% growth, which was stronger than anticipated, in Q3, and all sectors experienced a rebound. A resurgent wave of COIVD-19 infections, however, dampened momentum in Q4. The economy grew by 1.3% in Q4, and overall, have contracted by 3.6% in 2020 compared to 2.3% expansion in 2019. The CBSL anticipates a strong growth of 6% in 2021.

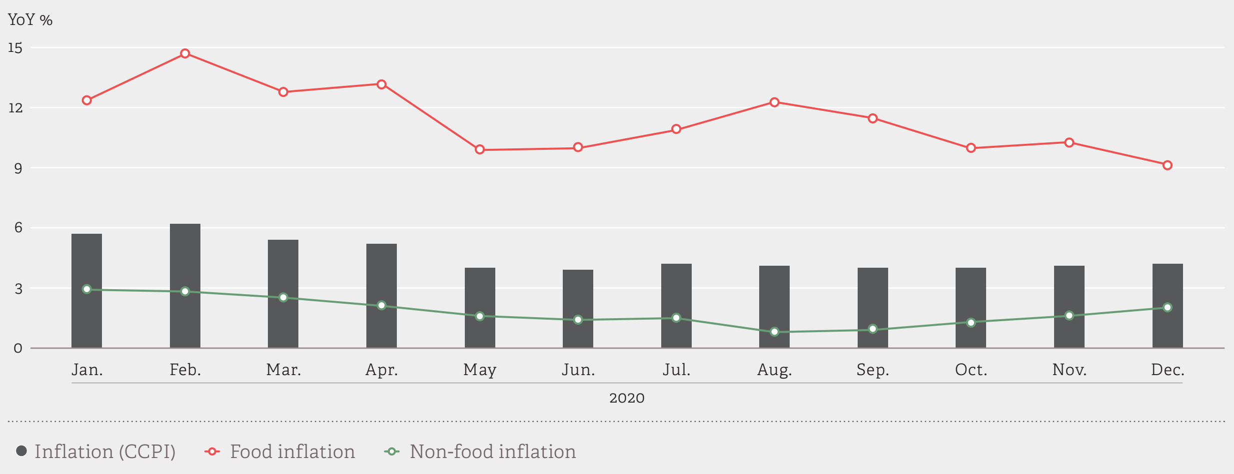
Inflation

Subdued demand and well anchored inflation expectations helped maintain inflation generally between 4%-6%, as targeted, during 2020. The exception was February, when inflation, as measured by the Colombo Consumer Price Index (CCPI) jumped to 6.2% (Y-o-Y) from 4.8% at the end of 2019 due to increase in food prices.

In the second half of 2020, inflation remained mostly stable in the range of 4%-4.2% (and was 4.2% as at the end of December 2020), easing inflationary pressure. According to the medium-term macroeconomic framework of CBSL, the projected average annual inflation for 2021 and 2022 is 5% and 5.8%, respectively.

Inflation

Graph 02



Source: Census and Statistic Department

External Sector – Trade Balance

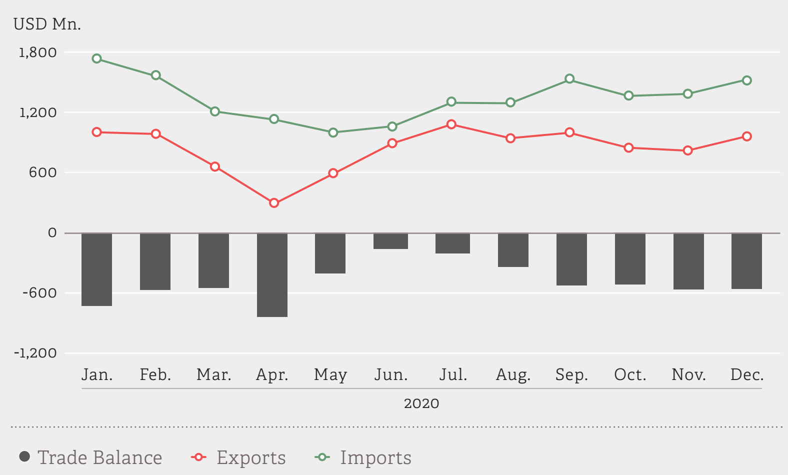
In a move to protect the Sri Lankan rupee and avert a foreign exchange crisis, the Ministry of Finance imposed restrictions on a wide range of merchandise imports with effect from April 2020. As a result, the decline of import expenditure outpaced the decline in export earnings (imports decreased by 14.4% in 2020, while exports dropped by 3.5%). This led to a substantial contraction in the trade deficit to USD 562 Mn. at the end of 2020, which was a reduction of USD 222.29 Mn. (28.3%) from the end of 2019 figure of USD 784 Mn.

Exports, which hit rock bottom in April, showed a "V shape recovery" within four months and earnings from exports surpassed the USD 1 Bn. mark in July 2020. However, due to the disruptions to local production and support services following the resurgence of COVID-19 cases since early October and weak demand from foreign buyers, earnings from exports declined as the year progressed. The trade balance, however, began expanding towards the end of the year. The main reason for the easing of pressure on the external sector was attributable to the continued improvement in the trade deficit caused by reduction in international oil prices, reduced domestic demand, and import restrictions on non-essential items along with increase in workers' remittances.

According to Central Bank of Sri Lanka's (CBSL) Medium-term Macroeconomic Framework, the trade deficit is expected to increase to 8.2% in 2021 as international oil prices, rice imports, and intermediate import expenditure (fertiliser and raw materials for manufactures) are all likely to rise in 2021. Nevertheless, Sri Lanka's external sector is expected to show resilience over the medium term with the resurgence in global demand, a domestic policy environment driving production and exports, the recovery of the tourism industry as pandemic fears subside, and a boost in both the domestic service (e.g. transport) and services export (e.g. IT/BPO) sectors.

External trade

Graph 03



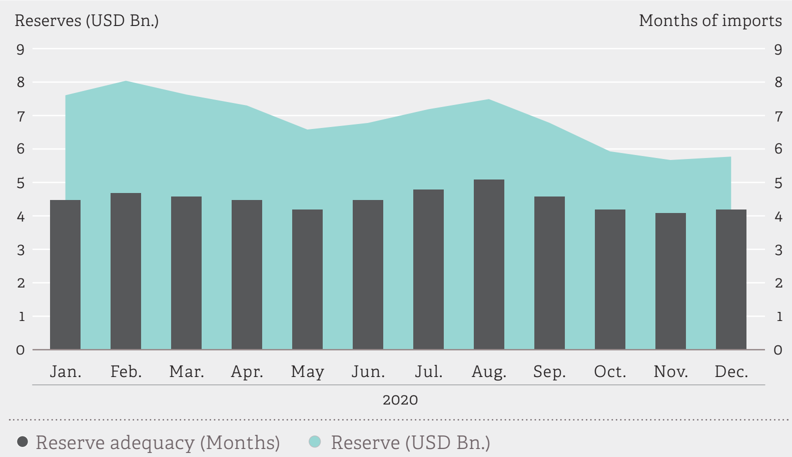
Source: Central Bank of Sri Lanka

Gross Official Reserves

The gross official reserves of the country gradually depleted during 2020 from USD 7.6 Bn. at the start of the year to USD 5.7 Bn. at year's end, which provided an import cover of 4.2 months. Similar to other emerging economies, Sri Lanka's foreign direct investment (FDI) inflows were low, while outflows were recorded from the rupee denominated Government Securities and equity markets. Tourism receipts were significantly reduced with the closure of airports to tourists from March 2020 to January 2021, which brought the industry to a standstill for most of 2020. Earnings from tourism plunged by 73.5% to USD 957 Mn. during the year from USD 3,607 Mn. in 2019. The repayment of sovereign bonds amounting to USD 1.0 Bn. on 2 October 2020 further reduced reserves. It is projected that the gross official reserves in terms of months of imports will decline further to 3.7 months in 2021.

Reserve position

Graph 04



Source: Central Bank of Sri Lanka

Operating Environment

Foreign Exchange

The already stressed external sector aftermath of the pandemic in March 2020 exerted pressure on the Sri Lankan rupee as well. However, the import restrictions buttressed the steep depreciation of currency. The rupee depreciated significantly during the year by 3.3% from a year ago. The import controls introduced by the Government and the CBSL's intervention in the domestic exchange market eased the pressure on the rupee and stabilised the exchange rate at USD 187.18 at the end of December 2020.

Fiscal Sector

As the fiscal policy of the GOSL was focused on mitigating the impact of the pandemic, fiscal consolidation was challenging for the domestic economy, with a spillover of unpaid bills from the previous year. During the first eleven months of 2020, government revenue and grants decreased by 28% to Rs. 1,262.1 Bn. compared to the corresponding period in 2019. The major cause of this decrease was the 30.0% drop in tax revenue over the first eleven months of 2020.

Government debt rose by 13.7% to Rs. 14,817.8 Bn. as at end of November 2020 against Rs. 13,031.5 Bn. recorded at end 2019. The debt as at end 2020 is expected to rise to 94.3% of GDP mainly due to the macroeconomic conditions arisen from the lagging economic development from 2015 to 2019 coupled with the COVID-19 impact.

In the medium term macro fiscal framework, GOSL seeks to limit the fiscal deficit to 4.0% of the GDP and the debt-to-GDP ratio to around 75.5% by 2025. In addition, the GOSL priorities for 2015-2021 includes achieving an economic growth of 6.0% or higher while keeping unemployment at 4.0% or lower, increasing the revenue-to-GDP ratio to over 14.0%, achieving a primary surplus, and ensuring single-digit rates of interest.

Credit Rating

The credit rating of the country was downgraded by international rating agencies during 2020, contending that a sharp rise in the country's sovereign debt to GDP ratio associated with COVID-19 shocks and narrowing financing options would heighten debt sustainability risks. The Government's external-debt obligations amount to USD 23.2 Bn. between 2021 and 2025 or about USD 4.0 Bn. annually. These agencies are generally of the view that Sri Lanka's financing and debt service challenges are exacerbated by its existing financing model, which has resulted in very high general government interest to revenues ratios. The average interest to revenue ratio from 2016 to 2020 is about 50%. The downgrading of Sri Lanka's sovereign credit rating will increase the country's external borrowing costs. It should be noted, however, that the government has challenged these downgrades, and, despite these concerns raised, took measures to promptly settle all maturing obligations, including the International Sovereign Bonds that matured in October 2020.

Rating agency	Rating as at end 2020	Previous Rating
Fitch	CCC in November 2020	B (-) (Negative)
S&P	CCC + (Stable) in December 2020	B (-) (Stable)
Moody's	CAA1 (Stable) in September 2020	B2 (Negative)

Monetary Sector →

In a move to supply more credit to the private sector, CBSL maintained an accommodative monetary policy stance throughout the year by reducing policy rates to historically low levels. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were both reduced 5 times during the year by a total of 250bps (4.5% and 5.5%, respectively, at year's end) and the Statutory Reserve Ratio (SRR) was reduced twice by a total of 300bps (2.0% at year's end).

This gave much needed breathing space for the banks and encouraged the banking system to increase their loan portfolios. Moreover, the bank rate was reduced by 650bps during the year from 15% to 8.5%, assuring the availability of further low-cost funding support for the banking system. In addition, the CBSL introduced debt moratoriums, special lending schemes at concessionary rates, and interest rate caps on selected lending products to hasten the transmission of the monetary policy. Other interest rates, such as credit cards (18%), pre-arranged temporary ODs (16%), pawning (10%) and penal interest rates (by 2ppt) were also reduced with effect from August 2020. Throughout the year, Central Bank emphasised the need for the reduction of market lending rates to support the domestic economy. Furthermore, Central Bank issued a directive restricting the discretionary payments of the Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) during the year.

Amidst this steady monetary easing across 2020, however, growth in credit to the private sector was below expectations at 6.5% at the end of December 2020. The CBSL envisages continuing its accommodative monetary policy stance to drive the country's economic recovery. In the low inflation, low-interest rate environment, credit to the private sector is expected to expand by around 14.0% in 2021 and by about 12.0%-12.5% annually over the medium-term. Particular attention will be given to the micro, small and medium scale enterprises (MSME) sector, which is the engine of the country's economy.

Monetary policy review effective date	SFDR %	SLFR %	SRR %	Bank Rate %
30 January 2020	6.50	7.50	5.00	15.00
17 March 2020	6.25	7.25	4.00	15.00
3 April 2020	6.00	7.00	4.00	15.00
16 April 2020	6.00	7.00	4.00	10.00
6 May 2020	5.50	6.50	4.00	9.50
16 June 2020	5.50	6.50	2.00	9.50
9 July 2020	4.50	5.50	2.00	8.50
20 August 2020	4.50	5.50	2.00	8.50

Table 02 Monetary Policy Review

Source: Central Bank of Sri Lanka

Against this backdrop, the yield of Government Securities also reduced notably during the year. The yield of primary market Treasury Bills reduced by 282bps, 322bps and 340bps (Y-o-Y) for 91-day, 182-day, and 364-day maturity, respectively to 4.69%, 4.80% and 5.05% at the end of December 2020.

Historically low yield rates were observed across the Treasury Bills and Treasury Bonds market during 2020. In line with the reduction in yields across all maturities in the primary market, the secondary market yield curve on Government Securities also adjusted downwards by end 2020 compared to end 2019. The reduction in yields on short-term maturities was higher than that on longer-term yields, reflecting the increased appetite for investment in short-term risk-free assets due to uncertainties associated with the pandemic. In the money market, call and repo rates depict a clear downward trend from January to December 2020. At the end of the December 2020, the rates hovered at around 4.53%-4.55% compared to 7.40%-7.55% reported at the end of previous year.

Sri Lankan Banking Sector

The banking sector encompassed 24 Licensed Commercial Banks (LCBs) and 6 Licensed Specialised Banks (LSB) at the end of 2020. The total asset base of the banking sector increased to Rs. 14.7 Tn. as at the end of 2020, recording a growth of 17.1% over the Rs. 12.5 Tn. reported at the end of December 2019. The increase in assets was mainly driven by a 39.7% expansion in investments as well as a 11.9% growth in loans and advances. Nevertheless, the profitability and asset quality in 2020 deteriorated due to higher credit risk amidst the bleak global and local economic conditions.

Credit Growth

The banking sector recorded an overall expansion in credit during the 2020, although much of this growth was attributable to the increase in loans and advances to the Government and State-Owned Enterprises (SOEs). Year-on-year credit growth increased from its lowest rate of 5.6% in December 2019 to 11.9% by the end of 2020.

Rupee loans and Foreign Currency (FC) loans (in USD terms) grew at 10.1% and 12.4%, respectively, on a year-on-year basis as of the end of 2020 compared to the 6.4% and 5.4% growth recorded at the end of 2019.

Credit Quality

A dominant issue for the banking sector in 2020 was deteriorating credit quality and its attendant risk. Since the end of 2017, the sector has witnessed a gradual but progressive rise in delinquency in loans and advances, and this situation has only been exacerbated by the adverse business environment that resulted from the Easter Sunday attacks in 2019 and the COVID-19 pandemic across 2020.

Even despite the freezing of the classification on loans and advances, under the debt moratorium, for individuals and businesses affected by the pandemic, the overall NPL ratio of the banking sector reached 4.9% at the end of 2020, slightly increased from 4.7% recorded in December 2019. The manufacturing sector reported the highest NPL ratio of 8.7%, followed by trade (7.4%), agriculture (6.9%), tourism (6.8%) and construction (6.4%). The specific provision coverage ratio increased from 38.2% as of the end of September 2019 to 45.9% by the end of September 2020. The full impact of the pandemic on asset quality will only fully materialise during 2021 when the moratoriums end.

Operating Environment

Funding

Deposits were continued to be the major source of funding for the banking sector, accounting for 76.0% of the total assets and showed a significant increase over the year. This increase was likely driven by the decline in discretionary spending due to the pandemic and also by a movement of deposits from the Non-Bank Financial Institution (NFBI) Sector to the banking sector. The growth in deposits increased from 7.9% in 2019 to 21.6% in 2020. With this surge in deposit growth, the credit-to-deposit ratio fell from 88.7% in December 2019 to 81.6% at the end of 2020, marking an easing of credit growth relative to deposits growth.

Profitability

The overall profitability of the banking sector declined in 2020. This was largely due to the falling Net Interest Margin resulting from justifiable accommodative policy measures taken by the CBSL, though this was set off somewhat by an increase in non-interest income and a decrease in non-interest expenses and taxes during 2020 compared to the previous year. Net Interest Income dropped by 0.9% during the year under review compared to 8.1% growth recorded in the previous year. Accordingly, Net Interest Margin also declined to 3.1% in 2020 against the 3.6% stood in 2019. Return on Assets (ROA) of the sector increased marginally from 0.9% in 2019 to 1.0% in 2020, while Return on Equity (ROE) increased from 10.3% to 11.3% as at the end of 2020.

Capital and Liquidity

In essence, the shocks to the financial sector caused by the pandemic were exogenous in nature (unlike, for example, the situation in the global financial crisis of 2007/08). As a result of the implementation of prudent regulatory requirements, the banking sector was well placed with capital and liquidity buffers at the outset of the pandemic.

Unprecedented monetary easing, regulatory forbearances, and low demand for loans and advances coupled with significant deposit growth and CBSL revise the definition of liquid assets all ensured that the banking sector had adequate levels of liquidity during 2020. Consequently, the Statutory Liquidity Asset Ratio (SLAR) of the Banking sector's Domestic Banking Units (DBU) stood at 37.3% as at end of December 2020, well above the minimum statutory requirement of 20.0%.

The sector also maintained healthy capital adequacy ratios (CAR), recording a Tier 1 CAR of 13.0% and a Total CAR of 16.5% as of the end of 2020, both well above the BASEL III minimum requirements of 8.5%/9% and 12.5%/13.0% for Domestically Systemically Important Banks (DSIBs) as well as 8.0% and 12.0% respectively for Non-DSIBs.

Outlook for the Sector

The year ahead will be challenging for the sector. Government stimulus initiatives to revive economic activity coupled with continued downgrades to lending rates, implementation of special loan schemes, and rising investor sentiment is expected to drive demand for credit, and credit growth is expected in the short to medium term. But the full picture of the sector's NPL position will only be revealed in 2021. A protracted low-interest rate environment will continue to put pressure on NIMs, and business models of banks will need to be revaluated in terms of their profitability.

To that end, the CBSL maintains its position of facilitating a market-driven consolidation process, enabling smaller banks, whose profitability and resilience may be facing significant challenges, to merge with each other or larger banks to create more viable and durable financial institutions. The COVID-19 pandemic also emphasised the need for crisis preparedness, and licensed banks will be required to update their recovery plans to deal with such contingencies.
A positive change within the sector has been the acceleration of digital banking to meet heightened demand for remote services during the pandemic. Anticipated changes to the regulatory environment to support digital banking, along with a supervisory framework to ensure the cybersecurity of banks, is expected to drive digitalisation forward in 2021.

Strategy and Resource Allocation

Our strategy, built on strong values, reflects our keen understanding of the operating context and is geared towards improving governance and risk management capabilities while delivering sustainable outcomes for all our stakeholders.

Strategic Planning Process

Our strategy is derived through an integrated thinking approach that takes into consideration our identity, our capabilities, our current and future needs, our stakeholders' needs and expectations, and our operating environment. An important part of our integrated strategic planning is to consider connectivity, interdependencies, and trade-offs between the six capitals that affect our Bank's ability to create value over short, medium and long term and that influence the decision-making process. Our integrated strategy planning process drives strategy development and deployment across the short to long-term horizon.

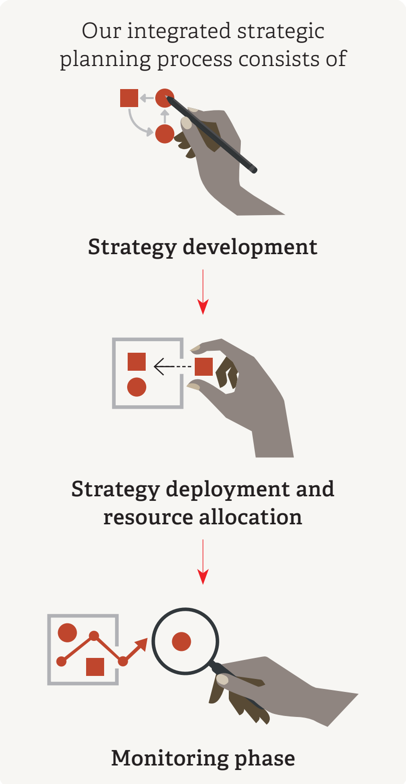


Figure 02

Strategy Development

The Bank's strategies are clearly linked to its Vision, Mission, and Values. The development process takes cognisance of both the external and internal business environment and suitably factors in the opportunities, challenges, and historical learnings.

As part of our strategy planning process, we scan the external environment for trends and analyse how these trends influence the banking sector. An assessment of our business model and operating environment along with proactive stakeholder engagement shapes our understanding of material issues and aspects that add or subtract value. These issues, along with resultant risk and opportunities, inform our strategy for the short, medium and long term.

Strategy Deployment and Resource Allocation

Our planning process ensures that our strategy and key resource considerations are integrated into our financial and execution plans. Potential opportunities are assessed within our risk appetite framework to ensure a balanced approach between future growth and responsible risk management.

Our long-term strategic projects identified through this process are evaluated and approved by the Board of Directors and are then included in the Long-term Planning Process for execution. Our short-term strategies and targets are aligned to our long-term strategic targets and are employed across the Bank. The overall strategies and plans are cascaded down to individual divisions/departments with clearly defined responsibilities, and connected to the last mile with employees' Key performance Indicators.

Our Strategic business planning framework enables us to identify the resources (IT, HR, Finance) required for achieving our stated strategic objectives. Our functional teams take appropriate actions to ensure the availability of resources, and these resources are allocated through our medium-term action plan, which outlines the required capabilities and the focused initiatives undertaken to achieve our ambitions. Based on resource availability and current and anticipated requirements, certain trade-offs are made which re-prioritise change initiatives and new projects.

Monitoring Phase

To enable the Bank to respond with agility to changes in the environment, the progress of the strategies and plans is tracked periodically through various reports and reviewed at defined intervals by the management committee and the Board. This process enables us to identify and test the robustness of our strategic initiatives against the progress achieved and to test possible future scenarios.

On a monthly basis, we review our monthly performance in comparison to the budget and historical performance through MIS/dashboards. On a quarterly basis, we monitor our strategic performance against our targets and the status of key projects and, when necessary, revise them to take into account changes in the strategic outlook through the action plan review.

We have defined our Key Performance Indicators based on the balanced scorecard to review our performance. They encompass both financial and non-financial indicators as well as quantitative and qualitative factors. This continuous monitoring process enables us to discuss operational issues and review market trends, customer needs and expectations, business results, and top priorities in order to refine our strategy and business model to remain relevant and competitive.

Strategy and Resource Allocation

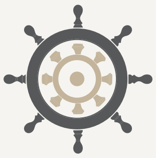
Our Long-term Strategic Objectives

Customer Driven

At NSB, the customers are our "North Star", and their outcomes guide everything we do. In our efforts at becoming the bank of choice, we remain committed to providing a superior customer experience in all our customer interactions. By aligning our resource allocation strategy with customer needs, we will always be a customer-driven bank that values our customers, our relationships with them, and our commitment to them.

Strength and Sustainability

We achieve strong, sustainable, and balanced growth by focusing on value that is consistent, competitive, profitable and responsible. In this regard, we place emphasis on maximising long-term value by strengthening financial solvency, capital position, augmenting revenue channels, innovation, and sustainability.



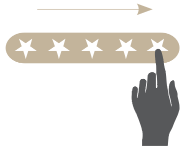
Excellence in Governance

We strive to maintain the highest standards in corporate governance and foster a culture of compliance and risk management. We leverage governance as a strategic and competitive differentiator by ensuring that business processes and governance checks across the Bank are efficient, agile, robust, and in line with international best practices.

Transformation Leader

As the premier state-owned specialised bank in the nation, we have always led by example, setting the bar in terms of operational excellence, financial inclusion, customer service, and business ethics and integrity. We continue to improve the lives of all Sri Lankans through our services, by promoting innovation in all business processes and delivery channels, and by capitalising on emerging opportunities.

Our Strategic Objectives for the Short to Medium Term



Heightening Customer service and experience

Improving customer experience is one of our top priorities. We take a multichannel approach to meeting multiple customer needs and enhancing the overall customer experience. We are committed to delivering an unmatched customer experience at every point a customer engages with our brand. Our investments in technology, people, processes, products, and service propositions underpin our efforts to deliver an integrated and differentiated customer experience. While developing our digital infrastructure, we also sustain and improve our physical touchpoints, facilitating our customers' seamless transition between channels.

Enhancing Employee Engagement

We depend on our people to deliver better customer outcomes and experiences. Creating a team of engaged and motivated employees with the right skills is essential to operate our business effectively and create value for our stakeholders. Therefore, we are committed to attracting and retaining the right people by creating a safe and rewarding environment and nurturing a team of engaged employees who are highly-skilled, motivated, responsible, and receptive, and possess strong communications skill and lead by example.

Reinforcing Risk Culture

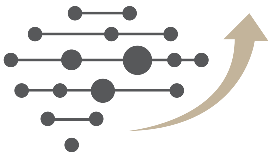
We strive to establish a healthy risk culture to effectively anticipate and manage the numerous risks that arise in a constantly evolving landscape. We continue to explore all available opportunities to improve and align our strategies and operations with our robust business model to prudently manage risks. We remain committed to operating ethically and reinforcing a healthy risk culture by being fully compliant with all applicable regulations, standards, and best practices and embracing new technologies to strengthen our risk capabilities.

Leading by Example

We aim to amplify the positive impact of the Bank by contributing to solutions that address socio-economic and environmental challenges. We integrate sustainability in every area of business operations and we are committed to achieving the UN SDGs. We are aware of our impact on society and environment and remain committed to creating social value by engaging in responsible and sustainable business practices. As a government organisation with deep social roots, NSB has a responsibility to be an exemplary corporate citizen and lead by example.

Promoting Organic Growth

Since our inception, we have directed our systems, operations, and strategic priorities to achieve our mandate of fostering a savings culture in Sri Lanka. In our 48 years of operations, we have become an entity that is trusted by all Sri Lankans. We leverage our systems and processes to achieve financial stability and organic growth. Through bank-wide, multichannel efforts, we focus on improving customer experience, employee engagement, and prudent risk management to grow and create sustainable returns to our stakeholders.



Accelerating Digitalisation

Digital innovations present us with both significant risks and opportunities. We are accelerating delivery of new digital products and services to improve customer experience and satisfaction, explore new revenue streams, and reduce costs. The behavioural outcomes of the COVID-19 pandemic are likely to drive increased levels of digital adoption and promote greater levels of flexible work practices. Therefore, our focus on innovation, disruption and cybersecurity is urgent and vital.

Strategy and Resource Allocation

Our Strategy Scoreboard

Table 03

2020 strategic objectives	Priorities for 2020	Key deliverables for 2020	Status	Remarks	Future priorities
Heightening customer experience	Increase accessibility and convenience	Opening new branches at targeted places	Partially achieved; Paused or impacted due to COVID-19	Only three new branches were opened in Kataragama, Katuwana and Weliweriya	• Continuously improve our products, services and channels in line with customer expectations and changing needs • Calibrate postal network to strengthen our footprint • Strive to improve customer experience in branches • Enable self-service channels and reduce customers' waiting time
	Enabling self-service channels and reducing customers' waiting time	Commissioning Cash Recycle Machines in highly-populated areas	Not achieved; Paused or impacted due to COVID-19	Postponed to upcoming years	
		Commissioning Cash Recycle Machines in branches	Achieved	24 Cash Recycling Machines were installed	
		Absorbing customers to Internet banking	Achieved	Achieved more than 100% growth	
	Product development	Developing a new product for children	Not achieved; Paused or impacted due to COVID-19	Postponed to the next year	
	Enhancing customer awareness, association and loyalty	Brand value ranking in SL	Not achieved	2020 – USD 156 Mn. (6th Rank) 2019 – USD 215 Mn. (5th Rank)	
Promoting organic growth	Growth in core areas	Growth in deposits compared to industry	Achieved	NSB – 21.7% Industry – 21.6%	• Improve operational efficiency through various digitisation initiatives • Explore new avenues to enhance fee based income • Improve the balance sheet quality and reducing non-strategic assets • Focus on reducing cost of funds • Improve market share • Increase profitability to exceed the cost of capital • Improve efficiency of back-office processes
		Growth in lending compared to industry	Achieved	NSB – 13.7% Industry – 11.3%	
	Arresting the declining deposit market share	Retaining or increasing market share	Achieved	2020 – 10.82% 2019 – 10.75%	
	Increasing value for share holder	Improving shareholder returns by raising medium-term ROE target range from 10%-15%	Achieved	2020 – 20.67% 2019 – 14.34%	
		Managing costs effectively	Achieved	Cost to Income Ratio 2020 – 39.12% 2019 – 49.35%	
	Reducing earnings volatility and dependency on interest income	Increasing Fee-based income	Achieved	2020 – Rs. 2.7 Bn. 2019 – Rs. 1.3 Bn. (Increased by 114.9%)	
Accelerating digitalisation	Carrying out IT projects	Implementing mobile payment APP solution	Partially achieved; Paused or impacted due to COVID-19	Postponed to next year and expedited to achieve the revised target period	• Develop innovative, accessible and affordable digitally-enabled solutions without forgoing customers' personal information, and privacy while mitigating cybersecurity risk. • Enhance the remote and digital customer service model
		Implementing HR Management System	Partially achieved; Paused or impacted due to COVID-19		
		Customisation and testing Core Banking Solution	Partially achieved; Paused or impacted due to COVID-19		
	System implementation to reduce cybersecurity threat	Implementing Data leakage prevention system, web access firewall and end point security for servers and databases	Achieved		

Achieved   Partially achieved   Not achieved   Paused or impacted due to COVID-19

2020 strategic objectives	Priorities for 2020	Key deliverables for 2020	Status	Remarks	Future priorities
Enhancing employee engagement	Increasing employee value proposition	Spend on employees	Partially achieved; Paused or impacted due to COVID-19	2020 – Rs. 9.97 Bn. 2019 – Rs. 10.16 Bn.	• Enhance employee happiness and loyalty at work with work-life balance • Create a positive culture with special focus on employee development and engagement • Create E-learning culture • Change management towards digital transformation • Train for high quality customer service and staff development • Promote professional development and merit-based criteria in selection and internal promotion processes
		Gender diversity of permanent employees	Partially achieved	Male – 45% Female – 55%	
		Introducing a target-based performance appraisal system to enhance productivity and motivation	Partially achieved; Paused or impacted due to COVID-19	Due to pandemic, implementation of HR System was delayed	
	Learning and development	Training and development spend	Paused or impacted due to COVID-19	2020 – Rs. 8.8 Mn. 2019 – Rs. 39.4 Mn.	
		Conducting online training programmes	Achieved	1,029 employees participated for 17 webinars (2019 – 9 webinars)	
		Training on change management with Core Banking Implementation	Not achieved; Paused or impacted due to COVID-19		
Reinforcing risk culture	Sustaining strong capital adequacy levels	CAR – Tier 1 – Basel III Compliance	Achieved	2020 – 13.65% Minimum regulatory requirement of 8.00%	• Sustain strong capital adequacy levels to facilitate business growth in prudent and disciplined manner. • Implement Environmental, Social and Governance policy and integrate into business operations. • Employ digital capabilities in preventing and identifying irregularities • Maintain the robustness of systems, processes and controls to combat cybersecurity threats. • Sustain strong asset quality through disciplined credit risk management
		Total Capital Ratios – Basel III Compliance	Achieved	2020 – 16.45% Minimum regulatory requirement of 12.00%	
	Managing credit risk prudently	Maintaining NPL ratio below than the industry average	Achieved	2020 – 2.79% Industry average – 4.93%	
	Cybersecurity	Implementing 24/7 security operations centre for the Bank	Achieved		
		Maintaining the PCIDSS certification obtained in 2019	Achieved		
		Obtaining ISO 27001 certification	Not achieved; Paused or impacted due to COVID-19		
	Zero tolerance to non-compliance	Regulatory fines or penalties	Achieved	Zero fines or penalties	
Lead by example	Uplifting local communities and supporting community building initiatives	Total investment in community engagement programmes	Partially achieved; Paused or impacted due to COVID-19	2020 – Rs. 18.1 Mn. 2019 – Rs. 30 Mn.	• Address social challenges such as access to financial services, education, employment opportunities and economic growth • Provide funding for strategic partnerships in community development • Manage environmental and social impacts of our lending practices • Manage our environmental footprint • Fulfil commitment to financial inclusion
		Proportion of spending local suppliers on local suppliers (%)	Achieved	100%	
	Economical supporting	Direct and Indirect Taxes paid	Achieved	2020 – Rs. 9.32 Bn. 2019 – Rs. 9.28 Bn.	
		Dividends Paid	Partially achieved	2020 – Rs. 1.0 Bn. 2019 – Rs. 2.0 Bn.	
	Supporting low carbon economy	Number of eco-loans granted	Not achieved; Paused or impacted due to COVID-19	2020 – 222 2019 – 8	
		Number of solar panel-installed – 42 Number of branches connected to net metering – 40	Achieved		

Achieved Partially achieved Not achieved Paused or impacted due to COVID-19

Financial Capital Review

Summarised Statement of Income

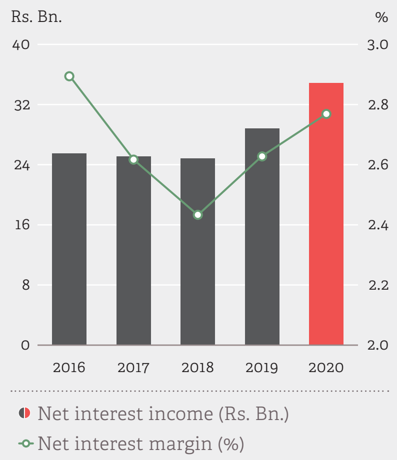
Table 04

		YoY Change (2020 vs 2019) %	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.
A	Net interest income	21.01	**34,890**	28,832	24,885
B	Net non-interest income	59.11	**4,881**	3,067	1,254
	Total operating income	24.68	**39,771**	31,899	26,139
C	Impairment charges	761.80	**4,874**	565	871
	Net operating income	11.37	**34,897**	31,334	25,268
D	Operating expenses	-1.34	**15,466**	15,675	14,097
	Operating profit	24.09	**19,431**	15,659	11,171
E	Tax on financial services	-27.14	**3,787**	5,197	3,230
F	**Profit before income tax**	49.54	**15,645**	10,462	7,941
E	Income tax expenses	35.69	**5,537**	4,080	3,441
F	**Profit for the year**	58.40	**10,108**	6,381	4,500

A Solid net interest income growth

Net interest income and net interest margin

Graph 05



The Bank reported a gross income of Rs. 127.5 Bn. for 2020, achieving a growth of 4.6% mainly driven by the 3.2%. rise in interest income, the largest component, to Rs. 122.5 Bn. from Rs. 118.7 Bn. recorded in the previous year as well as Fee and Commission Income which has increased by 114.9% to Rs. 2.7 Bn. compared to Rs. 1.3 Bn. in 2019.

Interest income recorded a growth of 3.2%, recording Rs. 122.5 Bn. in 2020 compared to Rs. 118.7 Bn. reported in the last year. It was largely driven by increase in interest income from debt and other instruments which rose by 21.1% to Rs. 70.3 Bn. during the year against the Rs. 58.0 Bn. in the 2019, despite the 13.2% decline witnessed in the interest income from loans and advances. The impact of COVID-19 on the customers and businesses led to the interest income from loans and advances to decline. Further, reclassification of loans as a debt instruments during the year also resulted in lower interest income from loans and advances and caused the interest income on debt instruments to increase during the period.

On the other hand, interest expenses dropped to Rs. 87.6 Bn. during the year under review compared to Rs. 89.9 Bn. incurred in 2019, recording a decline of 2.5%. The major contributor was interest expenses on Securities Sold under Repurchase Agreement (REPO) which was plummeted by 71.5% to Rs. 1.8 Bn. from Rs. 6.4 Bn. in 2019 due to excess liquidity prevailed throughout the year in the banking sector. Despite the reduction of monetary policy rates following the outbreak of COVID-19 pandemic, interest expenses due to depositors increased by 3.3% to Rs. 82.3 Bn. in the 2020 against the Rs. 79.6 Bn. of 2019 due to substantial growth in deposit base during the year.

Increase in interest income along with decrease in interest expenses resulted in 21.0% surge in net interest income, rising to Rs. 34.9 Bn. in 2020 over the Rs. 28.8 Bn. recorded in the last year. Consequently, net interest margin improved to 2.77% during the year from 2.63% reported a year ago.

Impact of debt moratorium on interest income

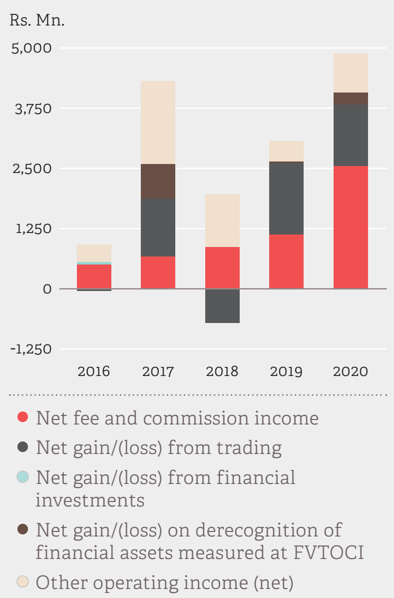
The outbreak of COVID-19 and the urgent need to support domestic economic activity by enhancing credit flows to COVID-19 hit businesses led the Central Bank to introduce broad-based stimulus packages including "*Saubhagya*" COVID-19 Renaissance Facility and the debt moratorium scheme for COVID-19 affected individuals and businesses. Accordingly, the Bank has granted the debt moratorium and payments deferment to all of its customers other than who refused to have debt moratorium or payment deferments.

The moratorium has been given to 90% of the retail loan portfolio at the concessionary rate of 7.0% and the payments were deferred until the end of the loan period. The moratorium period varied from two months to six months and in a very limited scenario, it has been extended to more than six months. The Bank incured a loss of Rs. 2.2 Bn. in interest income due to reduction of interest rate from contractual rates of the loans to 7% as directed by the CBSL. Further, in order to adhere to the direction, the Bank deferred such interest receivable at 7% to end of loan tenor. Therefore, the Bank further incurred a "Day one loss" on interest income Rs. 1.4 Bn. In aggregate, the Bank incurred a total loss of Rs. 3.6 Bn. due to moratorium imposed by the CBSL.

B Net non-interest income drove earnings growth

Analysis of non-interest income

Graph 06



Net non-interest income including net fee and commission based income, net gains/losses from trading, net gains/losses from derecognition of financial assets and net other operating income was Rs. 4.9 Bn., during the 2020 up by 59.1% against Rs. 3.1 Bn. reported in the last year. This non-interest based income accounted for 12.3% (9.6% in 2019) of the total operating income.

Net fee and commission income was affected negatively due to restrictions placed on imports and lower level of economic activities. Nevertheless, fee income from rescheduled loans and advances and fees generated through digital platforms where customers shifted under social distancing and health guidelines, led the net fee and commission income to improve.

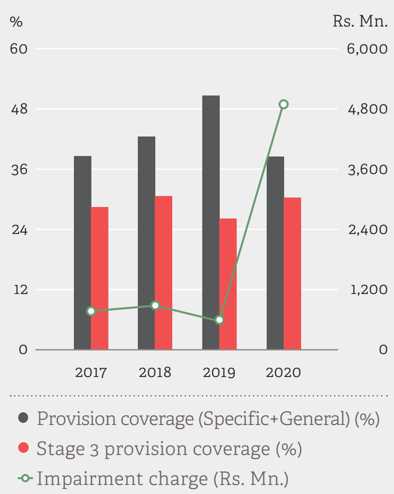
The net gains from trading declined by 14.6% to Rs. 1.3 Bn. in 2020 compared to the Rs. 1.5 Bn. reported in 2019 due to reduced income from unrealised gains on fixed income securities with the marginal increase in Treasury Bond rates during the latter part of 2020. However, the gains from equity securities increased to Rs. 0.4 Bn. during the year from Rs. 0.2 Bn. in 2019.

Net other operating income observed a growth of 90.8% to Rs. 0.8 Bn. during the year from Rs. 0.4 Bn. reported in 2019 resulting from the gain on revaluation of foreign exchange as well as the dividend income from subsidiaries.

C Impairment charges increased noticeably

Provision coverage

Graph 07



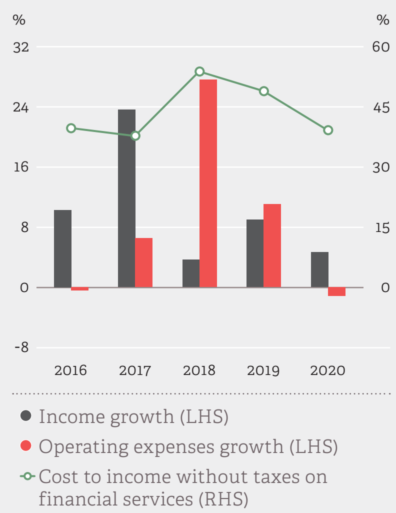
The impairment charges for the 2020 recorded with Rs. 4.9 Bn., more than an eightfold increase over the Rs. 0.6 Bn. reported in the 2019. Owing to the impact of weak economic conditions, elevated risk in the loan and advances portfolio at the individual level as well as at the collective level resulted in substantially higher impairment provisions over the previous year. Additional provisions were made considering possible cash flow delays based on available information.

Further, increased volume of personal lending along with increased probability weightage on the worst case macroeconomic scenario to capture the expected credit losses too resulted in higher impairment charges. The Bank also made comparatively higher impairment provisions against the investments in Sri Lanka Development Bonds (SLDB) following the downgrading of the country's sovereign rating.

D Costs well managed while investing

Cost and income growth

Graph 08



Operating expenses comprising personnel cost, depreciation and amortisation and other overhead expenses decreased to Rs. 15.5 Bn. during the year under review from Rs. 15.7 Bn. incurred for 2019, reflecting a marginal drop of 1.3% through various cost savings strategies and initiatives.

Personnel expenses representing 64.4% of operating expenses, declined by 1.3%, reaching Rs. 10.0 Bn. from Rs. 10.2 Bn. reported in the last year largely driven by reduction in non-salary payments compared with previous years.

Despite accounting only for 8.0% of the operating expenses, depreciation and amortisation expenses increased by 18.9% to Rs. 1.2 Bn. against Rs. 1.0 Bn. reported for the last year. This is mainly due to the investments made in new IT infrastructure to enhance

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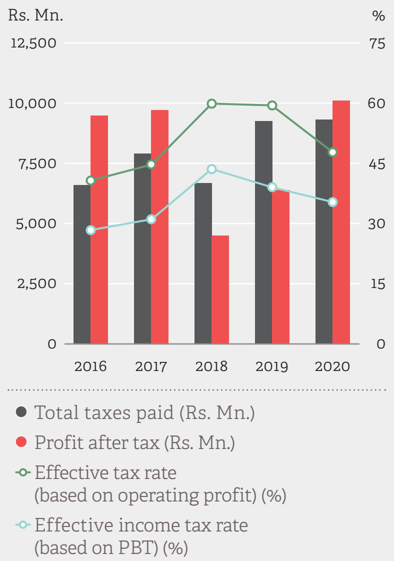
digital customer experience while strengthening the cybersecurity coupled with opening up of three new branches and strengthening the network of Smart ATM/CRM Zone facilities to 27.

Other operating expenses including administration and establishment expenses and Directors' emoluments dropped by 4.8% to Rs. 4.3 Bn. during the year 2020. Accordingly, the Bank successfully improved its cost to income ratio (without taxes) to 39.1% in 2020 from 49.4% recorded in the year 2019.

E Effective tax rate remains relatively high

Tax impact to profitability

Graph 09



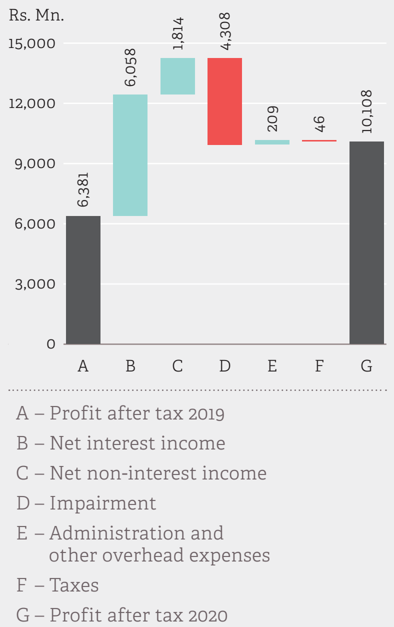
During the year, the Bank's contribution to the Nation via taxes was Rs. 9.3 Bn., remained at the same as last year. Total taxes include value added tax (VAT) on financial services, and income taxes.

Income tax was Rs. 5.5 Bn. during the year, up by 35.7% over the Rs. 4.1 Bn. recorded during the previous year, while taxes on financial services decreased by 27.1% to Rs. 3.8 Bn. in 2020 compared to Rs. 5.2 Bn. reported a year ago. Decreased tax on financial services was mainly caused by removal of the Nation Building Tax (NBT) and the Debt Repayment Levy (DRL) on financial services. As a result, the effective tax rate (calculated based on the Operating Profit) decreased to 48.0% in 2020 from 59.3% last year.

F Highest ever return

Impact on earnings

Graph 10



NSB recorded a profit before tax of Rs. 15.6 Bn. during the year under review, growing it by 49.5% from Rs. 10.5 Bn. reported in the 2019 mainly due to increase in net interest income by 21.0% and, supported by the removal of the Nation Building Tax (NBT) and the Debt Repayment Levy (DRL) on financial services. The Bank posted noteworthy results against the backdrop of the COVID-19 impact on the economic activities by registering a profit after tax of Rs. 10.1 Bn. compared to Rs. 6.4 Bn. recorded in 2019, a growth of 58.4%. Earnings per ordinary share also increased to Rs. 10.7 from Rs. 6.8 of 2019.

In line with the Bank's performance, return on assets (ROA) for the year improved to 1.24% against 0.95% reported for 2019. Similarly, return on equity (ROE) also increased to 20.67% for the year 2020 from 14.25% in 2019.

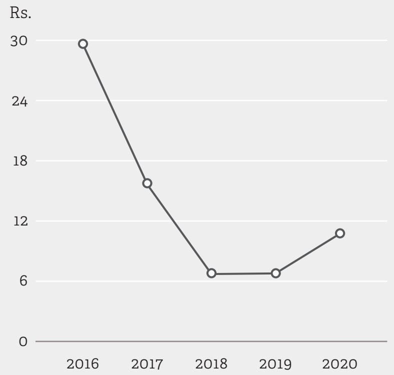
We consider our profit after tax as an appropriate indicator of the sustainable operating performance of the Bank. The graph below summarises the factors that derived the earnings performance in 2020 compared to 2019.

Changes in statement of comprehensive income

The main contributory factor for the increase in the loss in the Statement of Comprehensive Income was due to the items that will not be reclassified to the Income Statement. The loss of Rs. 6.7 Bn. occurred due to the remeasurement of post-employment benefit obligations. The Bank recorded a gain of Rs. 1.5 Bn. from the changes in the revaluation surplus.

Earnings per share

Graph 11



Summarised Statement of Financial Position

		YoY Change (2020 vs 2019) %	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.
A	**Total assets**	17.78	**1,363,808**	1,157,967	1,036,846
E	Cash and cash equivalents	20.74	**6,492**	5,377	3,435
E	Placements with banks	7.19	**13,253**	12,364	17,588
C	Derivative financial instruments	71.20	**20**	12	4,740
C	Financial assets recognised through profit or loss				
C	– measured at fair value	(2.08)	**11,222**	11,460	16,680
	Financial assets at amortised cost	–	–	–	–
B	– loans and advances	13.73	**516,795**	454,395	422,895
C	– debt and other instruments	22.51	**754,233**	615,634	518,948
C	Financial assets measured at fair value through other comprehensive income	339.00	**15,272**	3,479	6,184
C	Investments in subsidiaries	0.00	**4,811**	4,811	1,700
C	Property, plant and equipment	12.99	**16,004**	14,163	13,466
C	Right-of-use assets	14.22	**1,226**	1,074	–
D	Deferred tax assets	100.00	**1,446**	–	–
D	Other assets	(34.56)	**23,034**	35,198	31,209
F	**Total liabilities**	17.97	**1,311,911**	1,112,041	993,750
G	Due to banks	(63.30)	**12,862**	35,045	77,119
	Derivative financial instruments	–	–	–	2
	Financial liabilities at amortised cost				
H	– due to depositors	21.70	**1,237,124**	1,016,574	839,574
G	– due to other borrowers	(61.52)	**8,160**	21,203	14,805
I	Lease liability	19.48	**1,275**	1,067	–
G	Debt securities issued	19.04	**31,774**	26,692	52,389
I	Retirement benefit obligations	116.59	**10,885**	5,026	3,831
I	Deferred tax liabilities	(100.00)	–	482	583
I	Other liabilities	12.56	**6,699**	5,951	5,447
I	Due to subsidiaries	585.25	**4**	1	1
J	**Total shareholders' equity**	13.00	**51,897**	45,925	43,095
	Stated capital/Assigned capital	0.00	**9,400**	9,400	9,400
	Statutory reserve fund	14.19	**4,068**	3,563	3,228
	Retained earnings	45.01	**11,883**	8,195	3,985
	Other reserves	7.18	**26,546**	24,768	26,483
	Total equity and liabilities	17.78	**1,363,808**	1,157,967	1,036,846
I	**Contingent liabilities and commitments**	129.71	**23,787**	10,355	4,481

Table 05

A Stronger balance sheet growth

Amidst the challenges encountered during the year, the Bank continued to grow in 2020 with the Bank's asset base expanding by 17.8%, reaching Rs. 1.4 Tn. as at 31 December 2020 from Rs. 1.2 Tn. reported at the end of 2019.

The balance sheet growth was supported by the investments which increased by 23.3% to Rs. 798.8 Bn. against Rs. 647.8 Bn. in 2019 along with the expansion of the net loans and advances by 13.7% to reach Rs. 516.8 Bn. against Rs. 454.4 Bn. at the end of 2019.

B Maintaining growth momentum in lending amidst challenges

Loans and advances consist of term loans such as housing and property loans, personal loans, auto loans, educational loans, syndication loans, loans to banks and financial institutions as well as pawning advances, staff loans, loans to Government and securities purchased under resale agreements (Reverse REPO).

The retail lending portfolio increased significantly by the end of the reporting period, as the credit demand picked up during the fourth quarter following the Government's COVID-19 Renaissance Facilities and policy interest rate cuts by the Central Bank of Sri Lanka (CBSL). Nonetheless, reclassification of Rs. 26.9 Bn. worth of loans from Corporate loans to Corporate Debt Instruments led the Total Loans and Advances to increase by 13.7% to Rs. 516.8 Bn. as of December 2020, against the Rs. 454.4 Bn. recorded as at 31 December 2019. Personal consumption (41.0%), infrastructure (21.0%) and pawning (17.9%) dominated the net increase in loans and advances portfolio at the gross level as at the end of 2020.

The Bank's gross NPL ratio increased considerably by 122bps to 2.79% from 1.57% at end 2019 reflecting the deterioration of the asset quality caused by adverse impact of the COVID-19 outbreak on the repayment capacity of the customers amidst the economic stimulus package introduced by the Government. Also, reclassification of Rs. 26.9 Bn. worth of loans and advances in to debt instruments resulted in reduced loans and advances portfolio which is used as a denominator in the NPL ratio. Nevertheless, credit quality of the Bank was maintained in a stable manner in comparison to the industry average of 4.93% as at the end of 2020.

C Leveraging opportunities for investments

Investments in Debt and Equity securities

The Bank's total investment portfolio of equity and debt instruments witnessed a growth of 22.9%, achieving Rs. 758.7 Bn. at the end of 2020 against Rs. 620.9 Bn. reported in 2019. While debt instruments including Government Securities, Sri Lanka Development Bonds (SLDB), corporate debt instruments and trust certificates represented 99.4% of the total portfolio, the rest comprised equity securities. Equity portfolio of the Bank declined by 15.5% to Rs. 4.4 Bn. at end of 2020 from Rs. 5.3 Bn. in 2019 due to downturn in the equity market.

Debt and other instruments became attractive investments and main contributor to the Bank's asset growth, in spite of the fact that the growth in debt and other instruments is partially attributed to the conversion of corporate loans from "Loans and Advances" to "Debt and other Instruments". Consequently, an impressive growth of 22.5% is witnessed in debt and other instruments, reporting Rs. 754.2 Bn. at the end of December 2020 compared to Rs. 615.6 Bn. in 2019.

The Bank has been continuously fulfilling its mandate by contributing to financing Government requirements. Accordingly, during the year under review, the Bank's investments in Government Security portfolio consisting Sri Lanka Development Bonds, Treasury Bills and Bonds increased by Rs. 128.1 Bn. to Rs. 740.8 Bn. at the end of 2020 against the Rs. 612.7 Bn. in the last year. The Bank increased its Government securities to total deposits ratio to level of 62.7% at the end of December 2020, from 60.9% reported in 2019. As a result, the Bank is expected to benefit from diversifying its interest earning investments, which is likely to have a favourable impact on the bottom line in the upcoming year.

Derivative financial instruments

Derivative financial instruments of the Bank as at December 2020 was Rs. 19.9 Mn. against the Rs. 11.6 Mn. recorded at the end of the last year. This represents the swaps entered into with the DFCC Bank in order to hedge the interest rate risk caused by Rs. 2.0 Bn. term loan provided to Sri Lanka Telecom PLC.

Property, plant and equipment

Property, plant and equipment at the Written Down Value increased to Rs. 16.0 Bn. by 13.0% in 2020 from Rs. 14.2 Bn. recorded at the end of last year mainly driven by an increase in the gain on revaluation as well increase in IT infrastructure facilities.

Right-of-use assets

SLFRS 16, "Leases" which was implemented in 2019 requires the lessee to recognise all lease contracts on the statement of financial position excluding certain short-term lease contracts and lease contracts with low value assets. Accordingly, the Bank recognised a corresponding assets for all lease contracts amounting to Rs. 1.2 Bn. as "right-of-use assets" in its financial position as at 31 December 2020.

Investments in subsidiaries

Investments in subsidiaries continued to remain at the Rs. 4.8 Bn. as at the end of 2020, as there were no new acquisitions or mergers during the year under review. The balance includes the investment of Rs. 1.7 Bn. in NSB Fund Management Co. Ltd., and Rs. 3.1 Bn. invested in Sri Lanka Savings Bank (SLSB) as a fully-owned subsidiary.

D Decrease in other assets

Other assets

At the end of 2020, other assets including receivables, prepayments, receivables from treasury on interest payment to senior citizens, advance payment to treasury and unamortised cost on staff loans declined by 34.6% to Rs. 23.0 Bn. from Rs. 35.2 Bn. a year ago due to the reduction in interest receivable from treasury after the payment of treasury receivables by issuing Treasury Bond amounting to Rs. 19.2 Bn. at the yield of 7.84%. While these non-interest earning assets represented 3% of the total assets in 2019, it was reduced to 1.7% at the end of 2020.

E Managing cash and cash equivalents

Cash and cash equivalents and placement with banks

Cash and cash equivalents comprise cash in hand, balances with banks and money at call and short notice. As at the end of 2020, the Bank had Rs. 6.5 Bn. in cash and cash equivalents up by 20.7% over the 2019 figure caused by an increase in cash in hand. Placements with the banks are short-term deposits placed in banks which increased by 7.2% to Rs. 13.3 Bn. in 2020 against Rs. 12.4 Bn. reported last year. Both cash and cash equivalents and placement with banks are used by the Bank for its short-term commitments and they are maintained to comfortably meet liquidity requirements.

F Total liabilities

Total liabilities increased by 18.0% to Rs. 1.3 Tn. from Rs. 1.1 Tn. in 2019, primarily driven by the increase in customer deposits despite the decrease in total borrowings by 36.3% over the previous year.

G Managing our debt profile prudently

Total borrowing of the Bank including borrowings from financial institutions, securities sold under repurchase (REPO) agreements, debt securities issued declined significantly by 36.3% to Rs. 52.8 Bn. as at 31 December 2020 against the Rs. 82.9 Bn. recorded a year ago. Despite the Bank's issuance of Rs. 5.0 Bn. worth of perpetual debenture in order to enhance the additional Tier 1 capital and financing the lending activities of the Bank, the borrowing saw a significant decline attributed to the repayment of the borrowings as a result of excess liquidity that was available throughout the year.

Due to banks

Due to banks representing overdrafts, call money borrowings, loans from banks and Securities sold under repurchase agreements (REPO borrowings) plunged by 63.3% to Rs. 12.9 Bn. from Rs. 35.0 Bn. in 2019 owing to repayments of instalments on foreign currency loans and maturity of REPO borrowings.

Due to other borrowers

Due to other borrowers containing repo borrowings excluding those due to banks decreased by 61.5% to Rs. 8.2 Bn. in 2020 against Rs. 21.2 Bn. registered in the last year.

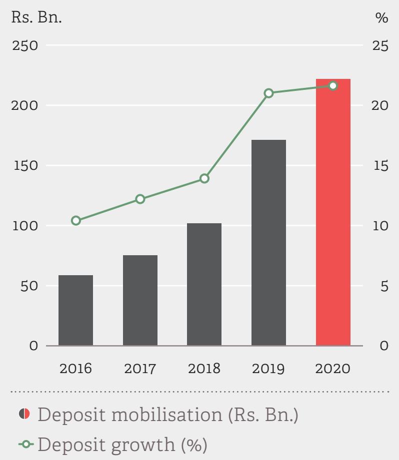
Debt securities issued

Debt securities issued encompasses unsecured subordinated redeemable debentures, senior unsecured redeemable debentures and unsecured subordinated perpetual debentures. The portfolio of debt securities issued at the end of December 2020 rose by 19.0% to Rs. 31.8 Bn. from Rs. 26.7 Bn. registered a year ago owing to issuance of Rs. 5.0 Bn. worth of perpetual debenture in order to enhance the additional Tier 1 capital and financing the lending activities of the Bank. Further, the portfolio contained Rs. 6.0 Bn. worth of five year debentures issued in 2016 to increase the capital of the Bank in order to enhance the capital adequacy ratio and reduce the maturity mismatch between the assets and liabilities portfolio of the Bank. It also contained Rs. 20.00 Bn. Senior debenture issued in 2019 to partly finance the funding requirement of unwinding the USD/LKR swap agreement with CBSL.

H Achieving the highest mobilisation in history

The Bank recorded its highest ever mobilisation of deposits by mobilising Rs. 221.9 Bn. during the year. The Bank's deposit base extended by 21.7% to record Rs. 1.2 Tn as of end December 2020, compared to Rs. 1.0 Tn. reported as at 31 December 2019. Despite the low interest rate regime that prevailed during the year, both savings deposits and fixed deposits bases recorded significant growths of 28.1% and 19.9% respectively to reach Rs. 280.0 Bn. and Rs. 957.1 Bn. respectively as at the end of December 2020 on the back of the increased household savings triggered by the pandemic. Accordingly, the savings deposit to total deposits increased to 22.6% in 2020 from 21.5% in the previous year, demonstrating the favourable change in the deposit mix that resulted in low cost funding.

Deposit mobilisation and growth Graph 12



I Rise in other liabilities

Retirement benefit obligation

Retirement benefit obligations surged at the end of December 2020 by 116.6% to Rs. 10.9 Bn. Compared to Rs. 5.0 Bn. reported last year. This was mainly due to the changes in the discount rate, increase in the amount of pensions provided along with revisions made in pensioners' medical assistance scheme.

Lease liability

Rs. 1.3 Bn. was recognised as a lease liability as at the end of December 2020 against the Rs. 1.1 Bn. recorded in 2019, witnessing a growth of 19.5%.

Other liabilities

Other liabilities including provisions and payables made on fees and expenses, tax on financial services and sundry creditors increased by 12.6% to Rs. 6.7 Bn. in 2020 against Rs. 6.0 Bn. in 2019.

Contingent liabilities and commitments

During the year, the Bank reported a 129.7% increase in its total commitments and contingencies to Rs. 23.8 Bn. compared to Rs. 10.4 Bn. last year. This is mainly attributable to the increase in commitments for unutilised credit facilities.

J Our capital remains strong

Shareholders' equity

Total shareholders' equity rose to Rs. 51.9 Bn. in 2020 from Rs. 45.9 Bn. in the previous year. During the year, the earnings per share increased to Rs. 10.75 from Rs. 6.79 in 2019, as a result of increased profit attributable to the shareholder. Given the limited avenues available for the Bank to enhance its capital base, we were compelled to curtail the dividend payout to 9.9%, thereby allowing the shoring up of internally generated funds during the year.

Capital management

The Bank's capital management is intended to create value for the shareholder by facilitating the achievement of long-term and short-term goals of the Bank. NSB manages its capital levels in line with a number of factors, including our internal assessment of the level of risk being taken, the expectations of the rating agencies, the requirements of the regulators and the returns expected by the shareholder. NSB also seeks to ensure that its capital structure takes full advantage of the range of capital instruments and capital management activities available in optimising the financial efficiency and loss absorption capacity of its capital base.

Capital management objectives

The main purposes of capital management are to support Bank's business strategy and to ensure a sufficient level of capital to withstand even severe downturns without breaching regulatory requirements.

The Bank's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Bank's risk appetite
- Allocate capital to businesses to support the Bank's strategic objectives
- Ensure that the Bank maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events

Process

The Board of Directors (Board) is responsible for setting our capital management objectives, and the Board articulates this objective in the form of capital targets. This objective is pursued while delivering returns to the shareholder and ensuring that adequate capital resources are available for business growth and investment opportunities as well as adverse situations, taking into consideration our strategic plans and risk appetite. Our dividend policy is to pay sustainable dividends over time, consistent with our capital management objectives and long-term growth prospects. In line with our dividend policy, the Bank paid a final dividend of Rs. 1.0 Bn. during 2020.

Our capital management objective is implemented via a capital management and planning process that is overseen by the Asset and Liability Management Committee (ALCO). The General Manager/CEO chairs the ALCO. The Committee receives regular updates on our current and projected capital position. A key tool for capital planning is the annual Internal Capital Adequacy Assessment Process (ICAAP) through which we assess our projected capital supply and demand relative to regulatory requirements and our capital targets. The ICAAP has a three-year horizon and covers various scenarios, including stress scenarios of differing scope and severity.

During the year, the Bank assessed its capital requirements under the ICAAP using standardised approach for credit risk and standardised measurement approach for market risk and basic indicator approach for operational risk under Pillar I as directed by the CBSL. Internally generated models in line with the industry best practices were used to assess Pillar II risks, taking into account a broader range of risks and the Bank's risk and capital management capabilities. Capital allocations by business line are set as part of the budget process and monitored during the year. Corporate Management of the Bank met periodically to assess the capital adequacy and other capital-related issues and to formulate and escalate its suggestions for implementation by way of strategies. NSB performed extensive and comprehensive stress testing during this period and concluded that the Bank remains well-capitalised relative to its business activities, the Board approved strategic plan, risk appetite, risk profile and the external environment in which it operates.

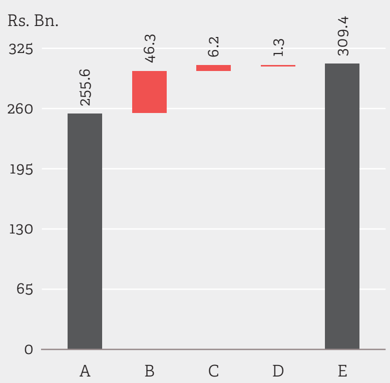
Capital Adequacy Ratios remain at comfortable levels

The Bank's risk weighted assets increased to Rs. 309.4 Bn. by 21.0% against the Rs. 255.6 Bn. recorded at the end of 2019. This increase was in line with the asset growth and largely due to 22.0% increase in Credit RWA along with 18.2% increase in Operational RWA. (Further reference to risk weighted assets is made in the Risk and Capital Management Report on pages 92 to 114 and Pillar III Disclosures under Basel III on pages 287 to 300.

The CBSL issued a direction on the framework for dealing with Domestic Systemically Important Banks (D-SIBs) in December 2019, identifying such banks on a relative score basis. Accordingly, despite crossing the Rs. 1.0 Tn. asset base, minimum requirements for Tier 1 and total CAR were 8.5% and 12.5% respectively having recognised the Bank as a Non-D-SIB by the CBSL. However, CBSL reduced the regulatory capital requirement by 50bps as a relief to Non-D-SIBs due to the COVID-19 pandemic. Further, CBSL deferred the enhancement of capital of licensed banks, which are yet to meet the minimum capital requirement by end of 2020, until end 2022 and imposed restrictions on discretionary payments of banks. Post the COVID-19 relief, regulatory Tier I ratio reduced from 8.50% to 8.00% and Total Capital ratio reduced from 12.50% to 12.00%.

Risk weighted assets

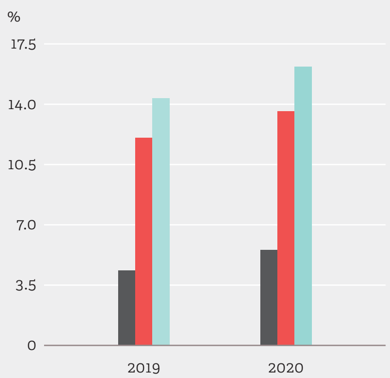
Graph 13



A – 31 December 2019
B – Credit risk
C – Operations risk
D – Market risk
E – 31 December 2020

Basel III capital adequacy

Graph 14



- Return on average RWA (Pre tax)
- Tier-1 – Capital
- Total Capital

The capital position of the Bank remained strong and stood well above the revised minimum statutory requirements imposed by the regulator consequent to the COVID-19 pandemic. The Tier I Capital and Total Capital ratios stood at 13.65% and 16.45% respectively at the end of December 2020 well above the statutory requirements of 8.00% and 12.00% respectively. The leverage ratio of 6.64% too was well in excess of minimum requirement of 3.0%.

Cash flow management

Table 06

	2020 Rs. Mn.	2019 Rs. Mn.
Opening cash balance	**5,293.9**	3,352.0
Cash flows from operating activities	**20,835.3**	16,462.8
(Increase)/decrease in operating assets	**(193,524.2)**	(114,421.5)
Increase/(decrease) in operating liabilities	**186,754.7**	108,707.7
Taxes Paid	**(2,889.0)**	(3,798.6)
Net Cash flows from operating activities	**11,176.8**	6,950.4
Cash flows from investing activities	**(13,516.6)**	(2,228.5)
Cash flows from financing activities	**3,220.0**	(2,780.0)
Closing cash balance	**6,174.1**	5,293.9

Our cash and cash equivalents at the end of 2019 of Rs. 5.3 Bn. increased by 16.6% to Rs. 6.2 Bn. as at 31 December 2020 as a result of increase in cash flows from operating activities along with the issuance of Rs. 5.0 Bn. worth of perpetual debenture.

Sources and utilisation of funds

We are actively managing our balance sheet, taking advantage of debt opportunities to ensure that we have a continued robust liquidity position with funding primarily from customers' deposits and a range of other sources.

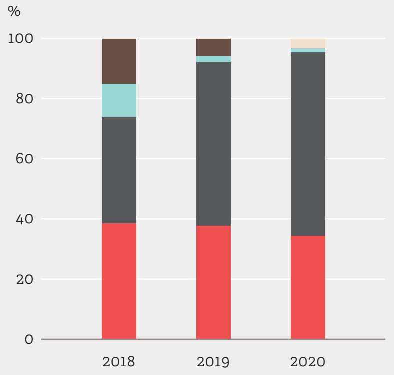
The Bank continues to ensure that it has the appropriate amount, tenor and diversification of funding to support its current forecast asset base while minimising cost of funds. Funding markets are evaluated on an ongoing basis to ensure that appropriate group funding strategies are executed depending on the competitive and regulatory environments. The Bank continued to focus on building its deposit base as a key component of the funding mix.

The Bank relies on deposits from customers, debt securities, term loans, securities sold under repurchase agreements and subordinated liabilities as its primary sources of funding. Deposits from customers generally have shorter maturities and a large proportion of it is repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk by maintaining competitive pricing and constant monitoring of market trends.

Financial Capital Review

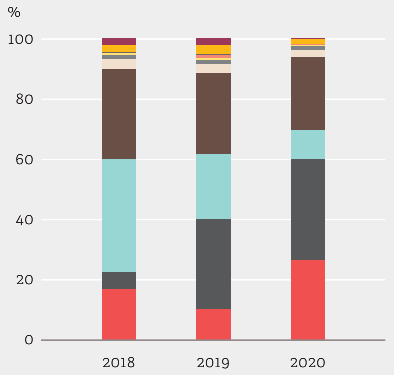
Source of funds

Graph 15



Utilisation of funds

Graph 16



Source of funds

Table 07

	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.
Income from operating activities	**125,470**	117,998	110,454
Deposits	**221,910**	170,677	101,634
Borrowings	**5.000**	6,288	31,086
Maturities in investments	**665**	18,132	43,245
Others	**11,010**	15	7
Net cash flows from operating activities	**364,055**	313,110	286,426

Utilisation of funds

Table 08

	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.
Loans and advances	**96,178**	31,734	48,291
Debt and other instruments	**122,222**	94,261	15,976
Repayment of borrowings	**35,016**	67,873	107,553
Interest paid	**87,823**	83,363	86,068
Payments to employees	**9,574**	9,576	8,944
Payments on other operating activities	**4,212**	4,450	3,732
Capital expenditure	**1,366**	1,505	1,742
Investment in subsidiaries and associates	**–**	3,111	800
Dividends	**1,000**	2,000	500
Taxies paid	**6,525**	8,725	6,738
Other	**138**	6,512	6,082
	364,055	313,110	286,426

The loans to total deposit ratio was at 41.8% at the end of 2020, lower than the 44.7% reported a year ago, largely attributable to reclassification of Rs. 26.9 Bn. loans and advances under Debentures. Also, the Bank is constrained by the statutory requirement of investing 60% of deposits mobilised during the year in Government Securities, generating risk free rate which results in lower yields. The Bank had maintained the Government Securities to total deposits ratio at a level of 62.7% at the end of December 2020, decreasing from 60.9% reported in 2019.

Debt profile →

Table 09

	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.
Short term (Less than 1 year)	**27,796**	50,994	126,281
Medium term (1 to 3 years)	**13,677**	25,623	12,032
Long term (Over 3 years)	**11,323**	6,323	6,000
	52,796	82,940	144,313

Our long term capital expansion projects are financed by a combination of floating and fixed rate long term debt as well as internally generated funds.

Table 10 Composition of debt profile

	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.
REPO borrowings	**14,532**	44,142	73,658
FC borrowings	**6,173**	12,023	64,566
Debt securities issued	**31,773**	26,692	6,006
Other	**318**	84	83
	52,796	82,940	144,313

Credit rating

Our credit ratings are influenced not only by our own significant risks, but also due to systemic risks such as movements in the sovereign credit rating of Sri Lanka. In May 2020, Fitch Ratings downgraded the sovereign's Long-Term Foreign and Local Currency Issuer Default Rating to "B-" from "B" with a Negative Outlook following the downgrade of the Sri Lankan Sovereign rating in April 2020 reflecting the impact of the escalating coronavirus pandemic on Sri Lankan's economy.

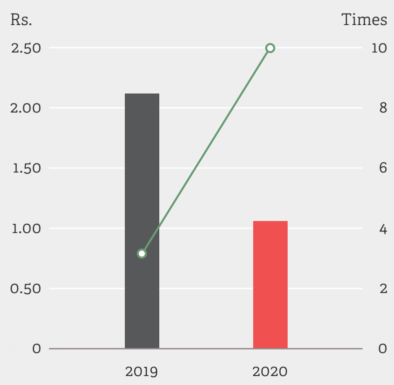
However, the ICRA Lanka Limited has assigned the issuer rating of [SL] AAA with stable outlook to the Bank during 2020, on the back of 100% Government of Sri Lanka (GoSL) ownership and the 100% explicit guarantee provided by the GoSL for the money deposited with the Bank and the interest thereof through the National Savings Bank Act. Further, the Bank's investment portfolio is characterised by low risk, with the Bank mandated to invest a minimum of 60% of the total deposits in Government Securities.

Dividend

The Bank paid Rs. 1.0 Bn. as dividend to the Government during 2020, less than Rs. 2.0 Bn. paid in the previous year. Dividend per share was Rs. 1.07 in 2020 against Rs. 2.13 in 2019. Dividend coverage ratio increased in 2020 to 10 times from 3 times recorded in last year due to the decrease in dividend payout ratio.

Dividend per share and dividend cover

Graph 17



Liquidity management

Appropriate liquidity buffers were held in line with the assessment of liquidity risk in stressed market conditions. Despite the volatile and constrained liquidity environments, adequate liquidity was maintained to fully support balance sheet growth through proactive liquidity management.

Portfolios of marketable and liquid instruments to meet regulatory and plausible stress situations are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within defined limits on the basis of diversification and liquidity. Managed liquidity represents unencumbered marketable instruments including High Quality Liquid Assets (HQLA) eligible under Basel III Liquidity Coverage Ratio (LCR), which would be able to provide sources of liquidity in a stress scenario.

LCR under the Basel III promotes short-term resilience of the Bank's 30 calendar day liquidity risk profile by ensuring it has sufficient HQLA to meet potential outflows in a stressed environment. The objective of the Basel III Net Stable Funding Ratio (NSFR) is to promote funding stability and resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of assets and off-balance sheet activities. The available stable funding is defined as the portion of capital and liabilities expected to be available over the one-year time horizon considered by the NSFR.

Our liquidity profile also remains healthy, with the Statutory Liquid Assets Ratio (SLAR) for the Domestic Banking Unit being maintained well above the minimum requirement of 20% throughout the period and ended up at 69.1% at the end of reporting period. Liquidity Coverage Ratio, measured by total High-Quality Liquid Assets over 30 days Net Cash Outflow, was also consistently maintained above 90% throughout the year and our liquidity coverage ratio for all currency as at the end of 2020 was 307.22%. Our liquidity coverage ratios as at the end of 2019 given below too were comfortably above the minimum hurdles. Net Stable Funding Ratio (NSFR) which is used to measure the long-term funding stability of the Bank stood at 168.5% at the end of 2020, well above the minimum requirement of 90%.

Managing funding and liquidity risk

The primary role of a bank in terms of financial intermediation is to transform short-term deposits into longer-term loans. When fulfilling this role, banks are inherently susceptible to liquidity and maturity mismatches and consequently to funding and market liquidity risks. Through the robust Liquidity Risk Management Framework, the Bank manages its funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the liquidity risk management framework include maintaining financial market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

Bank accords as much importance to funding and liquidity as for capital, for ensuring that the Bank has sustainable sources of funding and maintains adequate levels of liquidity at all times to maintain public trust in the Bank and the financial services system. NSB never compromises on its liquidity in its drive to generate returns for the shareholder.

The liquidity risk management process includes regular analysis and monitoring of the liquidity position by the ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools for this purpose. Liquidity and funding risk are measured using a range of metrics, including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Refer Risk and Capital Management Report from pages 92 to 114 for further details on liquidity risk management.

Economic performance

Direct economic value generated and distributed

Table 11

	2020 Rs. Mn.	2019 Rs. Mn.
Direct economic value generated to:	**127,547**	121,929
Operating expenses	**10,207**	5,894
Depositors	**87,622**	89,898
Employees	**9,967**	10,158
Providers of capital	**1,000**	2,000
Government except dividends	**9,745**	9,665
Direct economic value retained	**9,007**	4,314
Direct economic value distributed	**118,540**	117,615

Direct economic value generated and distributed (Rs. Mn.)

Graph 18

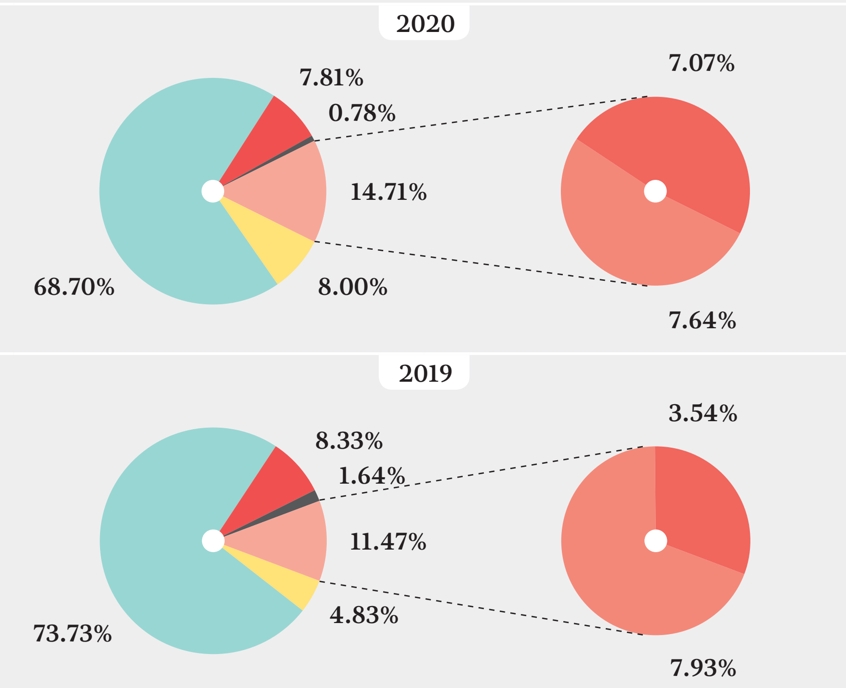


Table 12 Statutory Liquidity Ratios

Description	Bank 2020 %	2019 %	Change %
Statutory Liquid Assets Ratio (SLAR) – Minimum requirement 20%	**69.10**	60.20	14.8
Rupee LCR – Minimum requirement (2019 – 100%, 2020 – 90%)	**311.02**	278.12	11.8
All currency LCR – Minimum requirement (2019 – 100%, 2020 – 90%)	**307.22**	276.64	11.1
NSFR – Minimum requirement (2019 – 100%, 2020 – 90%)	**168.54**	175.18	(-3.8)

Business lines review

Branch Operations

Products and services
Full range of services including deposit taking, retail lending solutions, card solutions and transactional banking.

Customers
Natural persons and legal persons.

Delivery channels
Branches, ATMs, post offices and sub postal offices, CDMs/CRMs, online banking, telephony, call centre.

Operating environment
- Outbreak of COVID-19 pandemic and its impact
- Government measures to support individuals and businesses affected by the pandemic
- Expansion in credit growth

Strategic focus areas
- Retain our customers and to focus on new customer acquisition
- Safety and security of customers and employees
- Operational resilience and uninterrupted service following all the health measures instructed by Government
- Focus on relationship as our core, moving from a product focus to serve the customer through their life stages
- Strong focus on net interest revenue and transactional numbers
- Conservative credit policy and focus on collections and impairments
- Drive cost efficiencies
- Maintaining market share, but with reasonable growth in some categories
- Mobilising lower costs funding by increasing savings mix
- Improving asset quality continuously

Key achievements in 2020
- Achieved highest ever mobilisation of Rs. 218.4 Bn. deposits through branches and postal network, up by 28.2% from 2019
- Opening of 3 new branches, 3 ATMs and 24 CRMs were installed during the year
- Nine branches were relocated during the year
- More than 16,000 new customers have been added to the Internet banking network
- Increased deposit transactions through CRMs by over 50% compared to previous year
- 68.0% growth in postal deposit mobilisation
- 24.0% growth in retail lending
- Market share of deposits increased to 10.82% from 10.75% in 2019
- 2.79% Gross NPL ratio lower than the industry average of 4.9%

Way forward
- Accelerate digital transformation and invest in digital capabilities
- Improve digital customer experience on self-service channels without foregoing the security aspects
- Maintaining market share while achieving the targeted growth in identified areas/products
- Cost optimisation strategies and leverage technology to drive operational efficiency
- Increasing low costs funds and rural deposits
- Managing NPA ratio for retail lending lower than banking sector average

Financial Capital Review

Corporate Finance

Products and services

- Direct lending to financial institutions and their subsidiaries
- Structuring financial facilities (Derivative products for the clients)
- Plays the role of agent for syndicated facilities who coordinates the settlement and transactions between the lenders and the borrower/s
- Investing in trust certificates, private placements and debentures
- Leading industry expertise in funding for infrastructure projects
- Issuing of debt securities to enhance the regulatory capital and facilitate lending and investments

Customers

Corporates, State-owned enterprises, financial institutions, and private institutions

Delivery channels

Direct approach

Operating environment

- Weakening macroeconomic fundamentals and slow economic growth
- Difficulties in rebound in certain sectors such as construction, tourism and logistics
- Low investor confidence and capital outflows
- Lower interest rate regime
- Continuous rupee depreciation
- Sovereign downgrade

Strategic focus areas

- New client acquisition
- Focus on fee based income generated activities
- Focus on key growth sectors (Power, utilities, infrastructure, renewable energy, green businesses, and financial institutions) through commercialisation capabilities keeping an eye on high risk exposure sector
- Strengthening relationship and leveraging partners to expand our footprint in Sri Lanka
- Managing credit quality
- Refining pricing models and optimise capital allocation

Key achievements in 2020

- Issuance of Rs. 5.0 Bn. unlisted, unsecured subordinated perpetual debentures
- Around Rs. 35.0 Bn. loans disbursed to the corporate customers under project financing during the year.
- Rs. 31.4 Bn. loans provided for public finance for infrastructure development projects out of total of Rs. 35.0 Bn.
- 72.9% growth in corporate lending disbursements

Way forward

- Preserving credit portfolio quality
- Process improvements and automation
- Prudent lending approach by monitoring market trends
- Lending for the sectors with high growth, but with low to medium risk profile.
- Supporting the Government funding through infrastructure projects lending

International Banking

Products and services

- Foreign currency deposits (Savings and FDs) in USD, EUR, GBP, AUD and JPY
- Inward and outward remittances
- Foreign currency exchange
- Issuing of import letter of credit
- Handling of import bills and
- Issuing of shipping and air freight guarantees

Customers

Residents in Sri Lanka, Sri Lankans resident outside the country, foreigners resident in Sri Lanka.

Delivery channels

Branches, online banking, correspondent banks, exchange houses, worldwide money transfer companies, Eurogiro postal network and overseas representatives, telephony and call centre.

Operating environment

- Slowdown in global trade activities
- Measures taken to curtail the imports
- Declining foreign exchange earnings from the key source markets (Ex: middle east)
- Continuous rupee depreciation
- Covid-19 impact on the countries from which foreign exchange comes
- Growing numerous digital technology companies and other money exchangers

Strategic focus areas

- Market penetration and market development in key source markets for remittances
- Looking into other markets to reduce the dependency on middle east markets
- Access market for trade services permitted to the Bank through arrangements with Government institutions/trade unions/new automobile dealers
- Enhance the fee based income

Key achievements in 2020

- Recorded foreign remittances of Rs. 56.2 Bn.
- Established new exchange house relationship with Japan Remit Finance Co. Ltd. and Western Union LLC
- Achieved 29.7% growth in foreign deposits with Rs. 15.4 Bn.
- Increased the market share of remittances by 95bps to 4.24%

Way forward

- Operational excellence (Ex: efficient money transfer)
- Expand the footprint into high growth remittance markets
- Concentrate more into export trade finance business
- Improve customer experience
- Achieving double digit growth in foreign currency deposits and remittances
- Improve market share growth in remittances markets

Financial Capital Review

Treasury

Products and services
Investment in Government Securities, equities and FX, REPO borrowings and reverse REPO lending.

Customers
Financial institutions, non-financial institutions, individuals, SOEs.

Delivery channels
Direct access, online trading platforms

Operating environment
- Liquidity surplus in the market
- Low interest rate regime
- Lower yield in Government securities
- Investment outflow from Government Securities market

Strategic focus areas
- Realigning fixed income and securities portfolio to optimising return
- Maintaining the statutory requirement of investment in Government Securities
- Managing liquidity and investment
- Trade-off between fulfilling the mandatory requirement in investing Government Securities and the lending using customer deposits
- Increasing the FX dealing with the focus of improving capital gains and the fee based income

Key achievements in 2020
- Maintaining Government Securities to deposits ratio at optimum level at 62.65%
- Contributing 55.0% of interest income from Government Securities to the total interest income
- Stabilising at 10.16% yield from Government Securities

Way forward
- Impact of domestic and global events and policies on the investor confidence as well investments and capital flaws in the market
- Focus on effective liquidity management to minimise the maturities mismatch of the Bank's balance sheet
- Operational excellence in front-middle-back offices through implementation of new systems and processes
- Optimise return by attractive trading opportunities of the Bonds (G-Sec), Equity and FX markets of the Bank's balance sheet
- Deploy and invest mobilised funds for maximum return

Governance

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Board of Directors

Ms Keasila Jayawardena

Chairperson
Non-Independent Non-Executive Director

Date of appointment

2 January 2020

Skills and experience

Ms Jayawardena is an Academic/ University Lecturer, who has served as a Lecturer in Political Science at the University of Peradeniya for 15 years. She holds a Bachelor's (Honours) Degree and a Master's Degree in Political Science from the University of Peradeniya. She has served eight years as a Chairperson of two development banks.

Other current appointments

Chairperson, NSB Fund Management Co. Ltd., Chairperson, Sri Lanka Savings Bank.

Previous key appointments

Chairperson, Kandurata Development Bank, Chairperson, Regional Development Bank, Provincial Council Member.

Membership of Board Subcommittees

Chairperson of Board Human Resources Remuneration Committee (BHRRC), Chairperson of Board Credit Committee (BCC)*, Chairperson of Board Information Technology Strategic Committee (BITSC)*, Chairperson of Board Marketing Strategic Committee (BMSC)*.

* Rescinded with effect from 8 February 2021

Mr Eranga Jayewardene

Senior Director
Independent Non-Executive Director

Date of appointment

23 January 2020

Senior Director

15 June 2020

Skills and experience

Mr Jayewardene holds a Bachelor of Science Degree in Electrical Engineering from Rensselaer Polytechnic Institute, USA and a Master of Science (MSc) from Stanford University, USA in Electrical Engineering.

Mr Jayewardene was awarded many Leadership Awards during his tenure at Apple Inc. Cupertino, CA, USA and Cisco Systems, San Jose, CA, USA.

Mr Jayewardene was the first Sri Lankan to be awarded the Bill and Melinda Gates Fellowship which further aided his academic career by awarding a full scholarship to Stanford University, USA to pursue a PhD in Electrical Engineering.

Mr Jayewardene is a published author and his research papers have been presented at the International Society for Optical Engineering (SPIE) annual international symposiums. The research primarily focused on process control for Micro lithography which was conducted at the National Institute of Standard and Technology, Gaithersburg, MD, USA.

He was a founding member of a Silicon Valley based start-up that won the PayPal Innovation Award in 2010, which was also featured in several publications spanning from WIRED, NY Times, Boston Globe, CNBC and San Francisco Chronicle.

Mr Jayewardene has industry experience across local and international organisations and has spoken at international and local conferences.

Other current appointments

Chief Executive Officer (CEO) of Giga Foods Pvt Ltd.

Previous key appointments

Director, Digitalisation MAS Intimates (Pvt) Ltd., Chief Executive Officer, Silueta (Pvt) Limited, General Manager/Director, MAS Innovations, General Manager, Sourcing and Supply Chain, MAS Intimates (Pvt) Ltd., Senior Manager Supply Chain, Planning and Procurement, Apple Inc. Cupertino, CA, USA, Demand Planning Manager, Cisco Systems San Jose, CA., Research Scientist at National institute of Standards and Technology, Gaithersburg, MD, USA.

Membership of Board Subcommittees

Member of the Board Integrated Risk Management Committee (BIRMC), Member of the Board Nomination Committee (BNC), Member of the Board Information Technology Strategic Committee (BITSC)* and Member of the Board Marketing Strategic Committee (BMSC)*.

* Rescinded with effect from 8 February 2021

Mr U G R Ariyaratne

Ex officio Director Non-Independent Non-Executive Director

Date of appointment

31 August 2018

Skills and experience

Mr Ariyaratne is a Sri Lanka Administrative Service (SLAS) Special Grade Officer, who counts over 26 years of experience in the Sri Lanka Administrative Service. He holds Bachelor of Commerce, Master in Sociology and Postgraduate Diploma in Regional Planning from the University of Kelaniya. He has also completed a Postgraduate Diploma in Education from the University of Peradeniya. Mr Ariyaratne has obtained a Certificate of public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer from Sri Lanka Institute of Development Administration (SLIDA).

Other current appointments

Postmaster General, Department of Posts, Director NSB Fund Management Co. Ltd., Director CRIB.

Previous key appointments

District Secretary, District Secretariat, Polonnaruwa, Additional Secretary (Social Development), Additional Secretary (Rural Development) at the Ministry of Social Empowerment and Welfare, Additional Government Printer (Administration) at Department of Government Printing, Director General of Coconut Development Authority, Senior Assistant Secretary (Land) at the Ministry of Lands, Executive Director/Deputy Director General (Administration and Finance) of Mahaweli Authority of Sri Lanka, Deputy Postmaster General (North Western Province and Central Province) of Department of Posts, Divisional Secretary at the Divisional Secretariat, Mawathagama, Assistant/ Deputy Commissioner (Kurunegala) of Department of Agrarian Services, Secretary to the Corporative Employees Commission, North Western Province, Provincial Commissioner (North Central Province) of Department of Probation and Child Care Services, Assistant Divisional Secretary, Divisional Secretariat, Rajanganaya, Thirappane, Assistant Commissioner of Land, Department of Land Commissioner.

Membership of Board Subcommittees

Chairman of Board Nomination Committee (BNC), Member of the Board Human Resource Remuneration Committee (BHRRC), and Member of the Board Information Technology Strategic Committee (BITSC)*.

* Rescinded with effect from 8 February 2021

Dr M K C Senanayake

Ex Officio Director Non-Independent Non-Executive Director

Date of appointment

11 January 2020

Skills and experience

Being an academic in addition to his career as a public servant, Dr Senanayke has contributed to many international and local publications relevant to his expertise. He has made presentations at international seminars and conferences held all over the world. He has gained teaching experience at the University of New South Wales, Australia. Dr Senanayake holds a PhD in Economics from University of New South Wales, Australia, Master of Public Policy from Graduate School of Business Strategy, Hitotsubashi University, Japan and Bachelor of Commerce (Special) Degree, with a 2nd Class (Upper Division) from University of Sri Jayewardenepura. He also holds an Advanced Diploma in Management and Administration from Sri Lanka Institute of Development Administration (SLIDA) and Sri Lanka Foundation Institute.

Board of Directors

Other current appointments

Director General, Department of Fiscal Policy, Ministry of Finance, Observer (Treasury Representative) to the Board of Investment of Sri Lanka, Governing Board Member to the Institute of Policy Studies.

Previous key appointments

Director, Deputy Director (Acting) and Assistant Director, Department of Fiscal Policy, and Assistant Director, Department of National Planning, Ministry of Finance and Planning Commission member (Treasury Representative), University Grants Commission, Board member to Postgraduate Institute of English, Open University of Sri Lanka, Sri Lanka Institute of Local Governance, Sri Lanka Council for Agricultural Research Policy, National Science and Technology Commission.

Membership of Board Subcommittees

Chairman of the Board Integrated Risk Management Committee (BIRMC), Member of the Board Audit Committee (BAC), and the Member of Board Nomination Committee (BNC).

Ms Manohari Abeyesekera

Director
Non-Independent
Non-Executive Director

Date of appointment

14 January 2020

Skills and experience

Ms Abeyesekera holds a Bachelor of Science Degree in Biological Science (First Class Honours) and a Master of Business Administration (MBA) from the University of Colombo winning three gold medals. She is also a Fellow Member of Chartered Institute of Management Accountants (CIMA-UK) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). She is a prize winner at CIMA finals and was the Chairperson of CIMA Sri Lanka Country Network Panel in 2019. Ms Abeyesekara was elected to the CIMA Global Council for a three year term commencing June 2021. Ms Abeyesekera is an Alumna of KPMG. She possesses 20 years post-qualifying experience. She has successfully completed the Postgraduate Diploma in International Relations conducted by the Bandaranaike International Diplomatic Training Institute winning the Vernon Mendis Memorial Award. She has had Executive Education at Indian School of Business (ISB) Hyderabad, Asian Development Bank, Manila and BHF Bank, Germany. She had served as the President MBA Alumni Association of University of Colombo 2019-2020. Previously she had served as an Executive Committee Member in the International Chamber of Commerce Sri Lanka.

Other current appointments

Director – NSB Fund Management Co. Ltd., Committee members, CIMA UK Global Member Engagement Committee.

Previous key appointments

Held multiple leadership positions at HAYLEYS Group in an 18 year career from 2002-2020. Accountant Long Range Planning Unit, Head, Strategic Business Development, Hayleys PLC, Director HAYLEYS Group Services and Fentons Limited up to 31 October 2020.

Membership of Board Subcommittee

Chairperson of the Board Audit Committee (BAC), Member of the Board Credit Committee (BCC)*, and the Member of the Board Marketing and Strategic Committee (BMSC)*.

* Rescinded with effect from 8 February 2021

Mr M T J Perera

Non-Independent Non-Executive Director

Date of appointment

11 April 2020

Skills and experience

Mr Perera had served in National Savings Bank for a period exceeding four decades and retired in 2016 as a Chief Manager. He has extensively involved in branch operations exposing him to wider spectrum of service delivery.

Other current appointments

Director of NSB Fund Management Co. Ltd. Director of Sri Lanka Savings Bank.

Previous key appointments

Member of the Board of Janatha Estates Development Board (JEDB) from 2010 to 2013.

Membership of Board Subcommittees

Member of Board Integrated Risk Management Committee (BIRMC), Member of Board Credit Committee (BCC)*, Member of Board Marketing and Strategic Committee (BMSC)*.

* Rescinded with effect from 8 February 2021

Mr H K D Lakshman Gamini

Non-Independent Non-Executive Director

Date of appointment

7 January 2021

Skills and experience

Mr Gamini is an experienced banker who had served People's Bank for a period exceeding three decades and retired in 2014. He had widely involved in international banking and branch banking.

Other current appointments

Director at Three Star Logistics (PVT) Limited, Nominated as Director to NSB Fund Management Co. Ltd.

Previous key appointments

Vice Chairman of State Printing Corporation, Director of Skills Development Fund, Ministry of Skills Development and Vocational Training.

Membership of Board Subcommittees

Member of the Board Audit Committee (BAC), Member of the Board Human Resources and Remuneration Committee (BHRRC) and the Member of the Board Marketing Strategic Committee (BMSC)*.

* Rescinded with effect from 8 February 2021

Brigadier Dr Thiran De Silva (Rtd.)

Director Non-Independent/ Non-Executive

Tenure

From 17 January 2020 to 9 October 2020

Skills and experience

Dr Thiran has set records as the youngest Brigadier in the Sri Lankan military history, youngest officer appointed as a Director of Sri Lanka Army and the youngest Director General at Ministry of Defence. Further, he is the youngest Chief Information Officer (CIO) served in the Banking Sector in Sri Lanka.

Board of Directors

He holds a PhD in Business Administration from the Central Queensland University, Australia (2006), Master of Information Technology from Charles Sturt University (2004), Australia and Bachelor of Information Technology (Honours) from Swinburne University of Technology, Australia (2002). He is awaiting results of his Doctor of Philosophy Degree in Geo Informatics from the University of Peradeniya. Dr Thiran is a Microsoft Certified Professional in Server Management (USA) and a Certified Artificial Neural Networks – Artificial Intelligence (Sri Lanka).

Dr Thiran has involved in various research publications and presented in many international programmes/ symposiums and cybersecurity, ICT Education, Disaster Risk Analysis and Geo-Citizen Information Systems were among the key topics. He has attended many international seminars representing the country and served as a panel member, resource person and speaker etc. at these events.

Other current appointments

Chairman/CEO of Celta Tech (PVT) LTD.

Previous key appointments

Director – IT in Sri Lanka Army, Head of IT/GIS at Centre for Research and Development, Ministry of Defence, Founder and Head of Defence cybersecurity Operation Centre, CIO/ Head of IT of National Savings Bank, Director of MBSL Savings Bank, Director of MCSL Financial Services Ltd. and Director of Trillium Residencies and Director General at Centre for Research and Development, Ministry of Defence.

Membership of Board Subcommittees

Board Nomination Committee (BNC), Board Human Resource Remuneration Committee (BHRRC), Board Credit Committee (BCC)*, Board Marketing Strategic Committee (BMSC)*

* Rescinded with effect from 8 February 2021

Mr M P A W Peiris

General Manager/CEO

Date of appointment

12 October 2020

Skills and experience

Mr Peiris is a First Class Honours BSc Degree holder in Physical Science from the University of Colombo and a Member of the Association of Professional Bankers, the Institute of Bankers of Sri Lanka, Sri Lanka Institute of Credit Management and the Sri Lanka Institute of Training and Development.

Other current appointments

Director, NSB Fund Management Co. Ltd., Director, Institute of Bankers of Sri Lanka (IBSL), Director, Sri Lanka Banks' Association (SLBA), Director, the Financial Ombudsman, Sri Lanka (FOSL).

Previous key appointments

Mr Peiris is a professionally qualified and sound banker with a proven track record. His banking career spans over 32 years at NSB since joining the Bank as a Management Trainee in 1988. He has served in many areas of the Bank, including Branch Operations, Branch Administration, Retail Credit, International Banking, Postal Banking in the capacity of Branch Manager, Zonal Manager, Assistant General Manager, and Deputy General Manager before his appointment as the General Manager/CEO.

Ms Anupama Muhandiram

Secretary to the Board

Date of appointment

6 December 2016

Skills and experience

Ms Anupama Muhandiram, an Attorney-at-Law holds Master of Laws Degree (LLM) from Cardiff Metropolitan University of UK, Master's in Business Administration (MBA) Degree from Manipal University and Post-Attorney Diploma in Banking and Insurance Law from the Incorporated Council of Legal education of Sri Lanka. Currently she is reading for Chartered Corporate Secretaries of Sri Lanka.

Prior to her appointment as the Secretary to the Board of Directors of National Saving Bank on 6 December 2016, she has served as Assistant Secretary to the Board of Directors from November 2015 to December 2016. She has served as the Company Secretary of NSB Fund Management Co. Ltd., from 2015 to 2017. Out of 24 years experience in Banking and Finance sector, she had served more than 18 years at People's Bank as a Senior Legal Officer and an Assistant Secretary to the Board of Directors. Ms Muhandiram is also a visiting Lecturer (Commercial Law) at the University of Sabaragamuwa, and she is the Founder Secretary of Association of Board/Company Secretaries of Banks Sri Lanka.

Corporate Management

Mr M P A W Peiris
General Manager/CEO

Mr K Raveendran
Senior Deputy General Manager

Ms C S Jesudian
DGM (Credit and International)

Ms G V A D D Silva
DGM (Treasury)

Mr K K V V L W Karunatilaka
DGM (Marketing, Administration and Recovery)

Mr G W E Jayaweera
DGM (Audit)

Ms K P D M De Silva
DGM (Retail Credit and Postal Banking)

Mr M T A J F Gomis
DGM (Operations)

Ms M N A Fernando
DGM (Human Resource Development)

Dr A K L Illesinghe
Acting DGM (Information Technology)/
Chief Information Officer

Executive Management

Mr K M W H Karunaratne
AGM (Engineering)

Ms M A Gomes
AGM (Planning)

Mr J H T Chandraratne
AGM (Engineering)

Ms H M S L Fernando
AGM (Operations)

Mr A L A Haleem
AGM (Operations)

Ms W P U A de Silva
AGM (Operations)

Ms R A N N Wijesinghe
AGM (Operations)

Mr K S Weerasena
AGM (Human Resource Development)

Ms I K L Sasi Mahendran
Compliance Officer

Ms R P A M P Rajanayake
Chief Risk Officer

Mr W M R B Weerakoon
AGM (Branch Development)

Ms D D Wickramasinghe
AGM (Branch Credit)

Executive Management

Ms C W Pathirana
AGM (Support Services)

Mr M C Rajapaksha
AGM (Information Technology)

Ms S W A Weerasinghe
AGM (Treasury)

Mr L C Senanayake
AGM (Information Technology)

Ms Anupama Muhandiram
Secretary to the Board

Mr M D Suranjana
AGM (Audit)

Mr T H S Athapattu
AGM (Finance)

Chief Managers

Ms H R Karunamuni
Regional Office (Western 2)
Regional Manager

Mr D C Olaboduwa
Regional Office (North Western)
Regional Manager

Ms C N Ekanayake
Regional Office(Western 1)
Regional Manager

Ms A M C Attanayaka
Regional Office (Sabaragamuwa)
Regional Manager

Mr S Sivasorupan
Regional Office (Eastern)
Regional Manager

Mr N Baheerathan
Regional Office (Northern)
Regional Manager

Mr S B Suranga
Regional Office (Southern)
Regional Manager

Ms G Hapuarachchi
Regional Office (Central)
Regional Manager

Mr H M G P J Herath
Credit Division
Chief Manager

Mr A B C R Wijayapala
Branch Management Division
Chief Manager – Pawning

Mr M V G Susil Kumara
International Banking Division
Chief Manager

Mr K T S S Gunawardena
Security Division
Chief Manager

Mr D L P Abayasinghe
NSB Fund Management Co. Ltd.
Chief Executive Officer

Mr M W K C De Silva
Treasury Division
Chief Manager

Mr K D K K Wijeyawardane
Card Centre
Chief Manager

Mr D M C P B Dissanayake
General Manager's Division
Chief Manager

Mr A P R De Zoysa
Information Technology Division
Chief Manager (IS Security)

Ms S S J P S De Silva
Finance and Planning Division
Chief Manager

Mr H S P Ranaweera
Finance and Planning Division
Chief Manager

Ms S A M A C J S K Senarathne
Legal Division
Chief Manager

Mr S A A Batuwanthudawa
Credit Division
Chief Manager

Ms D A V Wijewantha
Kiribathgoda Branch
Branch Manager

Ms S H A S Kumari
Superannuation Division
Chief Manager

Ms N I Gunathilake
Credit Division
Chief Manager

Mr H D U Susantha Kumara
Kandy Branch
Branch Manager

Mr P A G L Hemal
Wennappuwa Branch
Branch Manager

Ms J M A K Jayasinghe
City Branch
Branch Manager

Ms K B N C Kumari
Finance and Planning Division
Chief Manager

Mr A M G Alahakoon Banda
Gampaha Branch
Branch Manager

Mr T D P Perera
HR Division
Chief Manager (Personnel)

Mr M T Hussain
Information Tecnology Division
Chief Manager – ICT Operations

Ms K C Thayaananthan
Chunnakam Branch
Branch Manager

Ms M D T Perera
Marketing Division
Chief Manager

Ms W E C Perera
Risk Management Division
Chief Manager

Mr J L P Manjula
Risk Management Division
Chief Manager

Ms O G W M Gaurawawansa
Treasury Back Office Unit
Chief Manager

Corporate Governance

Our Approach to Corporate Governance

At NSB our approach to governance extends beyond compliance. We firmly believe that our approach to governance and leadership in our business creates shared value by underpinning responsive thinking and responsible behaviour through enhanced accountability, effective leadership, robust risk management, clear performance management and greater transparency. In our way forward to achieve sustained value, we embrace governance as a business enabler in order to maintain trust with our stakeholders now and in the future.

In an ever evolving and complex regulatory environment, banks are expected to adapt to those changes quickly to entrench good governance practices while being proactive to the changes in regulatory landscape. We constantly review our governance framework to ensure that we have embraced the world class banking practices and robust institutional frameworks to act in the best interest of our stakeholders.

We are committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others. In our aspiration to be a responsible corporate citizen, we follow regulatory requirements, voluntary codes and internal elements of corporate governance applicable to the Bank.

Governance Supports our strategy

The Board is cognisant that a well governed Bank which has embraced best practices inspires the stakeholder confidence, lowers the cost of capitals, builds an inclusive governance framework and aspires to be sustainable. The shape and prospects and long-term viability of the Bank will be determined by the decisions and actions taken by the Board in directing the Bank. The Board ensures that the Bank is fully pledged to comply with applicable laws, regulations and best practices on governance. This will support the Bank to be a responsible corporate citizen while going forward with strategy implementation. The Board monitors the implementation of the Bank's strategy through an Action Plan that operationalises the strategies and keeps abreast of the achievements and risks associated with in fulfilling the strategies. Long-term sustainability is a key focus of the Board and it monitors economic, social, governance and environmental outcomes on a continuous basis.

Key Regulatory Requirements and Voluntary Codes relevant to the Bank and Internal Elements of the Corporate Governance Framework

The corporate governance framework of the Bank is mandated by the regulatory framework as well as the voluntary codes.

Regulatory Requirements

- NSB Act No. 30 of 1971 and amendments therein
- Banking Act No. 30 of 1988 and amendments thereto
- All Directions issued to Licensed Specialised Banks by the Central Bank of Sri Lanka (CBSL) particularly the Banking Act Direction No. 12 of 2007 on Corporate Governance
- Inland Revenue Act No. 24 of 2017 and amendments thereto
- Shop and Office Act No. 19 of 1954 and amendments thereto
- Code of Best Practice in Corporate Governance for Public Enterprises in Sri Lanka

Voluntary Codes relevant to the Bank

- Code of Best Practice on Corporate Governance 2017 issued by the ICASL

Internal Elements

- Board Charter
- Board Subcommittee Charters
- Code of Conduct
- Board approved policies and procedures

Governance Structure

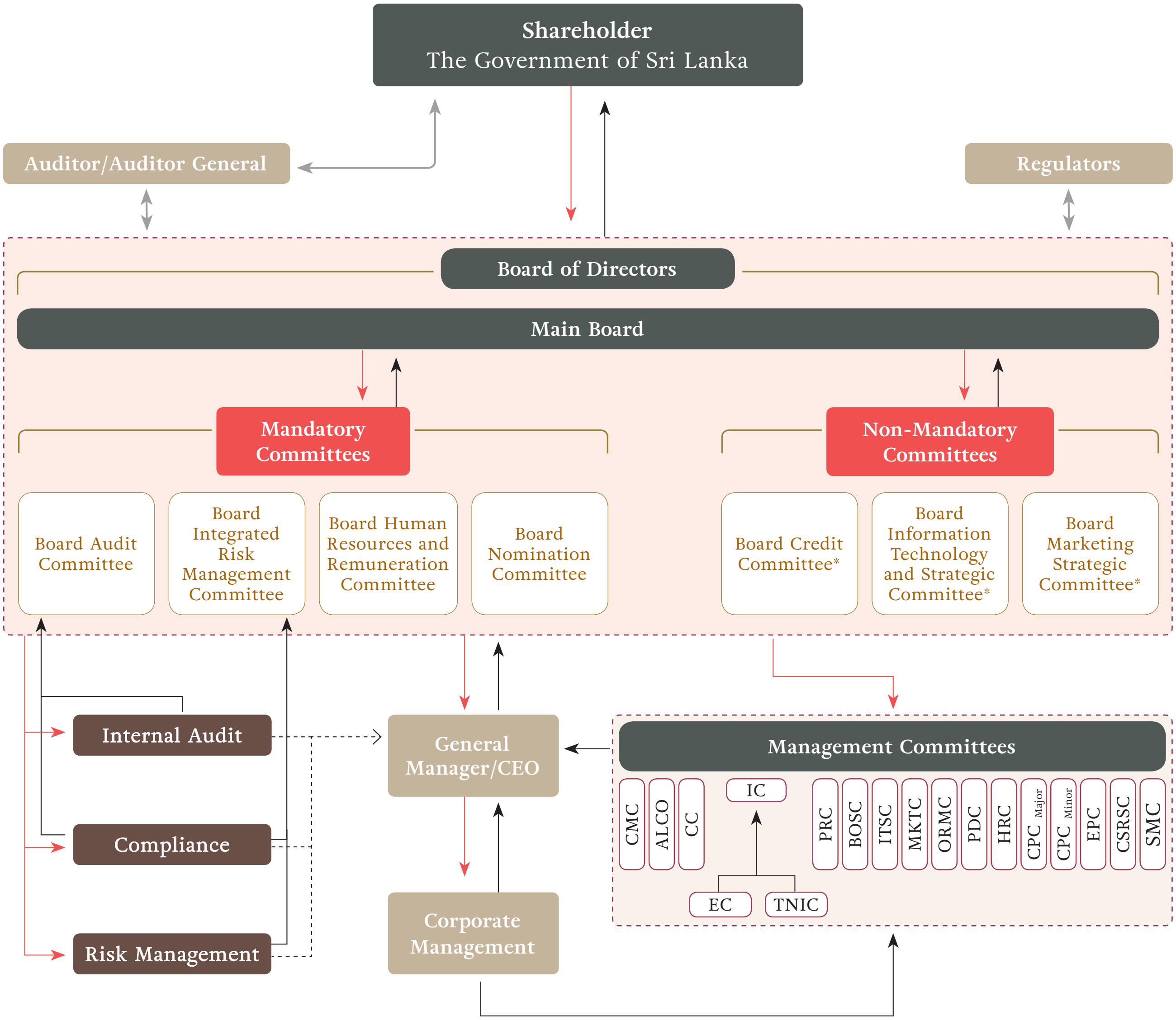
A well-architected governance structure and processes ensure that the Bank is well managed and controlled. The Bank has a welldefined governance structure with clearly defined delegation of authority. The governance processes in place ensures that the Bank delivers against this strategy to create value for itself and its stakeholders – now and in the future. The Board of Directors being the custodians of governance serves as the apex decision-making body of the Bank. The responsibilities of the Board are cascaded down to the Board Committees, Management Committees and the Management. The Board of Directors assisted by Board Committees provides ethical and effective leadership towards the achievement of the Bank's strategy and ensures that the Bank is managed within the agreed risk appetite. Management and the Management Committees are responsible for execution of the strategies directed and approved by the Board. Strategic business lines are responsible and accountable for carrying out operations assuming risk based on agreed risk levels.

Please refer page 50 for the Governance Structure of the Bank.

Corporate Governance

Governance Structure of National Savings Bank

Figure 03



Appointment flow
Responsibility flow – Direct
Administrative flow
Dialogue

CMC	Corporate Management Committee
ALCO	Assets Liability Management Committee
CC	Credit Committee
IC	Investment Committee
EC	Equity Committee
TNIC	Tender and New Investment Committee
PRC	Performance Review Committee
BOSC	Branch Operations Steering Committee
ITSC	IT Steering Committee
MKTC	Marketing Committee
ORMC	Operational Risk Management Committee
PDC	Product Development Committee
HRC	Human Resources Committee
CPC_{Major}	Corporate Procurement Committee – Major
CPC_{Minor}	Corporate Procurement Committee – Minor
EPC	Executive Procurement Committee
CSRSC	Corporate Social Responsibility and Sustainability Committee
SMC	Senior Management Committee

*Rescinded with effect from 8 February 2021

Board of Directors

The Board of Directors is the ultimate authority responsible for corporate governance across the Bank, and for providing ethical and effective stewardship towards the achievement of the Bank's strategy within the agreed risk appetite level. Members of the Board meaningfully contribute to leading the Bank by bringing diversity to Board deliberations and create sustained value by constructively challenging the Management. A clear division of responsibilities of Board ensures that no Director has unfettered powers in decision making. The Board monitors and holds Corporate Management accountable for the Bank's operational performance, financial performance and effective internal control systems and management is open and transparent with the Board, bringing all significant matters to its attention. In-depth interactions between the Board and the Corporate Management strengthen the Bank's decision-making and ensures an appropriate balance of power. These engagements take place with mutual respect and candour.

Figure 04

Roles and Responsibilities of the Board

The powers and roles and responsibilities reserved to the Board are given in the Board Charter as listed below.

Powers reserved to the Board

- To act as the final decision-making authority with regard to any matter related to the Bank subject to restrictions made in the Board Charter or any other laws/regulations in force.
- To arrive at suitable decisions on financial matters subject to provisions of the approved Procurement Manual of the Bank and other applicable laws/regulations in force.
- To formulate policies and guidelines to govern all activities of the Bank in order to ensure that most favourable business initiatives are taken at all levels.
- To inquire into any matter pertaining to performance, management or administration of the Bank by way of calling for reports, appointment of a committee or any other suitable method as decided by the Board.

Roles and Responsibilities of the Board

- Engage in any macro level matter which requires direction/guidance from the Board of Directors.
- Maintaining regular monitoring and supervision across overall functions of the Bank.
- Taking appropriate actions based on recommendations made by Board subcommittees, Directors, General Manager/CEO or any other committee exercising powers delegated by the Board.
- Monitoring and evaluating the performance of the Bank and also performance of KMPs including General Manager/CEO.
- Appointment of General Manager/CEO and, placements and promotions in line with the Terms of Reference of BHRRC and BNC.

Board Composition

The Board is constituted in terms of the NSB Act. The Board Charter details the roles and responsibilities bestowed upon the Board. The present Board comprises of seven Directors who are eminent professionals in their chosen fields of expertise and possess skills to carry out deliberations on matters set before the Board. The Board as of the financial year end comprised of six Directors where five out of six Directors are Non-Independent Non-Executive while one Director is Independent. The Chairman has overall responsibility for the leadership of the Board and for ensuring its effectiveness. The Board ensures that the Bank manages risk effectively, monitors financial performance and reporting and ensures that appropriate and effective internal controls and procedures are in place. It provides and encourages entrepreneurial leadership across the Bank within this framework.

Profiles of the Board of Directors including their qualifications and skills, other significant appointments and membership of the Board Committees are given on pages 40 to 44.

Board skills and expertise

As a financial intermediary, the Bank needs a broad range of skills to ensure the value creation in the interest of all stakeholders. The Board determines the required composition of skills in response to the rapidly changing environment and shifts in the Bank's long-term strategy. Having the right mix

Corporate Governance

of skills and expertise ensures that a united Board as a united team is well equipped to guide and drive the Bank's strategy the way forward and in the process of value creation. Our Board is equipped with skills and experience specifically in the fields of banking, finance, economics, research, planning, strategy development, IT, cybersecurity, humanities, management, administration and international relations.

Board Process

The Board meets at least once in six weeks based on an agreed meeting schedule as per the NSB Act. Additional meetings are convened based on the requirements to do so. Directors regularly attend the meetings and actively participate in the deliberations. Details of attendance at Board meetings are given on page 53. The Chairman is responsible for determining the agenda of meetings with assistance of the Secretary to the Board in consultation with the General Manager/CEO. The agenda is circulated to the Board members along with the relevant Board papers one week prior to the date of the Board meetings by the Secretary to the Board. This process allows the members of the Board for timely preparation for making deliberations and informed decisions. On exceptional situations, urgent Board papers are submitted at short notice or tabled during the meetings. Adequately detailed minutes of the meetings and the decisions made therein are maintained to access by Directors. Board members also can request certain items to be included in the agenda for discussion and decision making.

Conflicts of Interest

The members of the Board are committed to act in the best interest of the Bank, in good faith and avoid undue conflicts of interest whether financially or otherwise. Directors are required to inform the Board promptly of conflicts or potential conflicts of interest that they may have in relation to particular items of business. Directors are obliged to excuse themselves from discussions of decisions on any matters in which they have a conflict of interest. A standard agenda item is included for members to declare whether any of them have any conflict of interest in respect of a matter on the agenda and minuted accordingly. Any banking facilities provided to the Directors are in compliance with the authorisation given by the CBSL. Directors annually declare their interest and necessary procedures are in place to ensure that there is no conflict of interest.

During the year 2020, none of the Directors had a significant interest in any contract or arrangement entered into by the Bank or its subsidiaries other than as disclosed in Note 49.5.2 of the Financial Statements, on page 239.

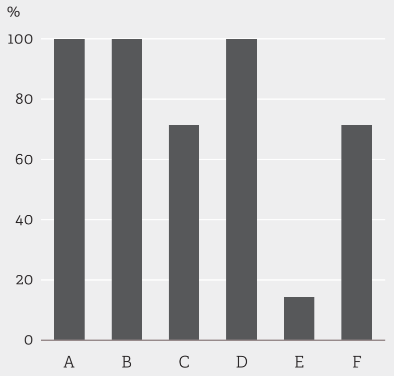
Board meetings

The Board of Directors held 19 scheduled meetings during the year inclusive of special meetings. The Board meetings are held at least once in every six weeks according to the provision of NSB Act and special meetings are held when the need arises. In the governance process to deliver against the strategies, the Board dedicated their time in providing clear directions to the Corporate Management in formulation of the Bank's three-year Strategic Business Plan which was consequently reviewed and approved by the Board. During the year, the Board continued to devote time on capital management, reviewed the performance and implementation of Strategic Business Plan and deliberated on matters that require further attention, risk management, compliance and corporate governance.

Our Board in 2020

Skills and experience

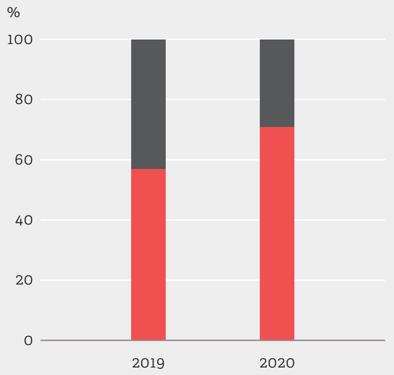
Graph 19



A – Leadership
B – Economics, banking, finance
C – Research, planning, strategy development
D – Management, administration
E – Information technology, cybersecurity
F – Humanities, sociology, international relations

Diversity of age

Graph 20

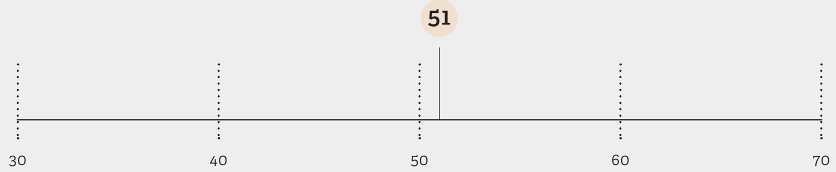


● Younger than 60 years
● Older than 60 years

Diversity of age

Graph 21

Average age
51 years



Board Subcommittees

The Board is empowered through its Charter to delegate its powers, discretions and authorities to any committee or committees as it thinks fit to ensure that delegation promotes independent judgement and assists with the balance of power and effective discharge of duties. The Board Committees are responsible for overseeing matters relating to their respective authorities within the remit of terms of reference. The Board however continues to retain the responsibility for committee decisions. Four mandatory committees; Board Audit Committee (BAC), Board Human Resource Remuneration Committee (BHRRC), Board Nomination Committee (BNC) and Board Integrated Risk Management Committee (BIRMC) were formed as required by the Banking Act Direction No. 12 of 2007 while other three committees were formed by considering the business, evolving governance requirements, risk management and industry best practices. The Board Committees report to the Board. The Board has defined the roles and responsibilities of each committee and provided specific levels of discretion within which they can operate. The Secretary to the Board is also the Secretary to six subcommittees while DGM (Marketing, Administration and Recovery) is the Secretary to the Board Marketing Strategic Committee. Minutes of the meetings shall be submitted to the Board for information, review, comment and required approval.

Terms of reference, composition, roles and responsibilities, attendance of members, activities carried out during the year 2020 under each committee are given in respective committee report on pages 78 to 91.

Composition and attendance of Board/Board Subcommittees

Table 13

Name of the Director	Director Status	Board	BAC	BHRRC	BNC	BIRMC	BCC	BITSC	BMSC
Ms Keasila Jayawardena – Chairperson	NED/NID	19/19		6/6			1/1	1/2	6/6
Mr Eranga Jayewardene – Senior Director	NED/ID	18/18		0/0	0/0	1/1	4/4	6/6	4/6
Mr U G R Ariyaratne – Ex officio Director	NED/NID	18/19		1/1	2/2			4/4	
Dr M K C Senanayake – Ex officio Director	NED/NID	19/19	6/6		2/2	3/5			
Ms Manohari Abeyesekera – Director	NED/NID	19/19	6/6			4/4	4/4	1/1	6/6
Dr Thiran De Silva – Director (up to 9 October 2020)	NED/NID	13/15		5/5	2/2		2/3	2/2	0/2
Mr M T J Perera – Director	NED/NID	14/14	5/5	5/5		3/4		3/3	6/6

NED – Non-Executive Director NID – Non-Independent Director ID – Independent Director

Appointment, re-election and Resignation of Directors

As a State-owned Bank, the appointment of Directors to the National Savings Bank is done as per the NSB Act No. 30 of 1971 and its amendments therein. Accordingly, five of the seven Directors are appointed by the Minister responsible for state banks while out of the other two Ex officio Directors, one shall be Secretary to the Treasury or his nominee and the other shall be the Postmaster General or his nominee as per the NSB Act. The Central Bank of Sri Lanka approves appointments made if the required criteria for fit and propriety are met. The maximum period a Director can serve is restricted to nine years as per the provisions of the Banking Act Direction No. 12 of 2007 on Corporate Governance.

The resignations and re-election of Directors are also done as per the NSB Act No. 30 of 1971 and its amendments therein where the Central Bank of Sri Lanka is duly informed.

Corporate Governance

Board Induction and Training

The Bank identifies the importance of well-focused induction and training to ensure new Directors are adequately briefed and have the requisite knowledge of the Bank and its operations enabling them to contribute fully to Board deliberations. This further outlines the Directors' fiduciary and statutory duties and provides guidance on all legal and governance related obligations. Members of the Board of Directors of the Bank are provided with training and access to BoardPac Solution and the Board Manual which includes NSB Act No. 30 of 1971 and the amendments thereto, Directions issued by the Central Bank of Sri Lanka, Board Charter, Board Committee Charters, other relevant statutes, circulars and other relevant documents on appointment. Directors receive informative updates and training throughout their tenor from the Secretary to the Board which assist in keeping Directors abreast of economic, regulatory and industry trends. Directors participate the training/knowhow programmes organised by the regulator as well as other authorities.

Access to Information

Directors have unrestricted access to all information, as well as the resources required to carry out their duties and responsibilities. Access to external specialist advice is available to Directors at the Bank's expense, in terms of the NSB Act No. 30 of 1971 and the amendments thereto on independent professional advice. The Directors are provided with an electronic Board paper system where the Board papers are circulated through the system allowing adequate time to Directors for the required deliberations.

Management Committees

In addition to the Board Committees, the Bank has constituted Management Committees. These have been established under a Board approved terms of reference. The General Manager/CEO acts as the Chairman of all Management Committees according to the terms of reference of those committees. The Committees deliberate on matters critical to the operations of the Bank as described below:

Management Committee	Objective and responsibilities	Composition
Corporate Management Committee (CMC)	Oversee on matters relating to policy and strategy formulation, implementation of the policies and strategies at the operational level.	All officers serving the Bank in the capacity of Deputy General Manager and above.
Asset and Liability Management Committee (ALCO)	Maintaining the market and liquidity risk within the predetermined risk appetite level in order to optimise the return	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Operations, Credit, Treasury and Risk Management.
Credit Committee (CC)	Periodic review of the Credit Policies of the Bank, implementation of the policies and engaging in maintaining a healthy credit portfolio to optimise the returns within the risk appetite of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, Operations, Credit, Treasury, Legal and Risk Management.
Investment Committee (IC)	Periodic review of Investment Policy of the Bank and overseeing the investment activities of the Bank within overall risk appetite level of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Credit, Treasury, Legal and Risk Management.
Performance Review Committee (PRC)	Review of financial performance, progress of ongoing activities, withdrawal activities and any other support functions of the Bank that facilitate the performance.	General Manager/CEO, Senior DGM, all DGMs, all Consultant and Heads of Divisions, all AGMs, Compliance Officer and any other Members appointed by the Committee.
Branch Operations Steering Committee (BOSC)	Oversee the reinforcement of the branch operations within the delegated financial authority.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, Legal and Premises.
Information Technology Steering Committee (ITSC)	Ensuring that the IT strategies are aligned with the business strategy of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Operations, Credit, Treasury, Legal, Human Resource Development, Marketing, Information Technology, Compliance and Risk Management.

Management Committee	Objective and Responsibilities	Composition
Marketing Committee (MKTC)	Provide with marketing advice, expertise and assistance to the Board and the Corporate Management, review and direct all aspects of marketing activities of the Bank	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Operations and Marketing.
Operational Risk Management Committee (ORMC)	Manage operational risk of the Bank while overseeing the implementation of the operational risk management techniques and maintain the integrity of internal controls by taking relevant measures.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Research and Development, Operations, Human Resource Development, Information Technology, Support Services, Premises, Legal, Risk Management, Compliance and Information Security.
Product Development Committee (PDC)	Oversee long-term value creation through innovative product development to face the increasing competition.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Research and Development, Operations, International, Information Technology, Retail Credit, Marketing, and Planning.
Human Resource Committee (HRC)	Development of human resources in line with the Bank's strategic objectives.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Human Resource Development, Credit and Legal.
Corporate Procurement Committee (Major)	Smooth functioning of the procurement process of the Bank	General Manager/CEO, KMPs from Finance and Planning, Operations, Representative from the Ministry of Finance
Corporate Procurement Committee (Minor)	Smooth functioning of the procurement process of the Bank	General Manager/CEO, KMPs from Finance and Planning, Operations, Representative from the Ministry of Finance
Executive Procurement Committee (EPC)	Smooth functioning of the procurement process of the Bank	Senior DGM, DGM (Credit), Chief Manager (Finance)
Corporate Social Responsibility and Sustainability Committee (CSRSC)	Support value creation for key stakeholders by integrating ethical, social and environmental responsibility into daily business activities as defined by the Corporate objectives that is linked to sustainability performance and development.	General Manager/CEO, Senior DGM, all DGMs, all Consultant and Heads of Divisions, all AGMs.
Senior Management Committee (SMC)	Scrutinise the human resource related matters	General Manager/CEO, Senior DGM, DGM (Credit), DGM (HRD), DGM (Audit)

Table 14 Management Committees

Board's Role in Risk Management

The Board identifies aligning risk management as an integral part of the business strategy of the Bank. Prudent oversight on risk management is deeply rooted within the Board and it has established and delegated its responsibility to the BIRMC in discharging its duties in relation to the risk management function of the Bank. Accordingly, the Bank has formulated a strong risk management framework, risk appetite limits and tolerance limits and mechanism to monitor the risk profile of the Bank. The Board monitors the risk profile of the Bank based on the reports submitted through BIRMC on a regular basis. Clarifications were sought from the Management for any deviations from the agreed risk appetite levels and required guidance was given to take mitigation actions. The risks involved in the business was considered and deeply discussed and reviewed during the deliberations on Strategic Business Plan that ensured that the risk relating to long-term strategic planning process was well addressed.

Roles of Chairman and CEO

In line with the NSB Act No. 30 of 1971 and the amendments therein, directives of CBSL and industry best practices, the Bank ensures that the appointment and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of Chairman and the General Manager/CEO are separate, with their individual responsibilities clearly defined. The separation of responsibilities is designed to ensure that no single person has unfettered decision-making powers and that appropriate balances of power and authority exist. The Chairman is a Non-Independent Non-Executive Director while the General Manager is a Key Management Personnel appointed by the Board who is the Chief Executive Officer and not a Board member. The Board Charter clearly defines the roles and responsibilities of the Chairman and the General Manager/CEO.

Chairman is responsible for leading the Board, facilitating effective functioning of the Board, preserving order, ensuring the Board's effectiveness and highest standards of corporate governance within the Bank. Chairman sets the agenda in consultation with the General Manager/CEO and the Board Secretary. Chairman ensures that the Board receives adequate information to make informed decisions in discharging the Board's duties, effective participation of members at the Board meetings, maintains effective communication with shareholder as well as open lines of communication with Key Management Personnel.

The General Manager/CEO is responsible for designing, developing and the execution of the Bank's strategy and day-to-day management of the business within the approved risk appetite levels as entrusted by the Board of Directors. The General Manager/CEO provides the leadership to the Corporate Management Team and delegates aspects of his own authority, as permitted in the corporate governance framework, to members of the Corporate Management. He also chairs the Management Committees and ensures that the Board receives accurate, timely and clear information about the Bank's performance. The General Manager/CEO also ensures that good corporate governance and highest standards are applied and maintained when carrying out the affairs of the Bank.

Role of Board Secretary

The Secretary to the Board has a key role to play in ensuring that Board procedures are both followed and regularly reviewed to ensure good corporate governance within the Bank. The responsibilities of the Secretary to the Board are summarised below:

- Maintaining minutes of all meetings of the Board and its subcommittees.
- Ensure regulatory and statutory compliance by the Board of Directors.
- Ensure effective functioning of the Board.
- Provide professional advice to the Directors on relevant laws and regulations and also to ensure compliance with principles of corporate governance and other related regulatory framework.
- Ensure that the Board is well informed of the decisions made at the Board subcommittees and their outcomes.

The appointment and the removal of the Secretary to the Board is a matter involving the whole Board under the advice of BNC as it is a Key Management Personnel position.

Directors' Remuneration and Level and Make up of Remuneration

As per the NSB Act No. 30 of 1971 and the amendments thereto, the remuneration of the Directors is determined by the relevant Minister. No Director is involved in determining his/her own remuneration. The Board Human Resource and Remuneration Committee makes recommendations to the Board regarding the remuneration of the General Manager/CEO and the Key Management Personnel on the basis of salaries determined by the Collective Agreement, which is reviewed once in three years. The Bank has put in place a Board approved Remuneration Policy for Key Management Personnel. Based on the recommendations by the Committee, the Board makes recommendations to the respective Minister responsible for state banks who grants final approval in accordance with the provisions of the NSB Act and amendments thereto. The Remuneration Committee comprise three Non-Executive Directors.

Board and Board Subcommittee Evaluation

The Board and the Board subcommittees annually conduct their own appraisal to ensure that the Board is discharging their duties according to the Board Charter which includes the responsibilities outlined in the Banking Act Direction No. 12 of 2007 and other applicable rules and regulations as well as best practices on corporate governance. In the process of evaluation, each Director fills a Board Performance Evaluation Form which is submitted to the Nomination Committee by the Secretary to the Board.

Appraisal of CEO

Assisted by the BHRRC, performance of the General Manager/CEO is assessed.

The Board assesses the performance of the General Manager/CEO with the assistance of the BHRRC on an annual basis based on the criteria according to financial and non-financial targets of the Strategic Business Plan agreed with the General Manager/CEO at the beginning of the year. Changes in the operating environment are given due consideration when making the appraisal. The Chairman discusses with the General manager/CEO and gives him formal and informal feedback. The feedback to the appraisal by the General Manager/CEO is given due consideration prior to the approval.

Compliance with Banking Act Direction

The Banking Act Direction No. 12 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Central Bank of Sri Lanka

Table 15

		Level of compliance in 2020
3 (1)	The Responsibilities of the Board	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with The Bank's strategic objectives and corporate values are determined by the Board as stated in page 51. These are incorporated in the Board approved Strategic Business Plan for the period of 2021 – 2023 and communicated to all levels of employees through planned meetings. The corporate values are included in the Bank's web page and pages 2 and 3 on this report.
3 (1) (i) (b)	Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with The Board provides guidance and direction for the preparation of three-year Strategic Business Plan for 2021 – 2023 that was approved by the Board after detailed discussion with the Corporate Management. The Strategic Business Plan is aligned with the overall risk management framework, procedures and the risk appetite of the Bank. The Strategic Business Plan is operationalised through an Action Plan with measurable goals for the next three years. Strategic Business Plan is a rolling plan that is updated and reviewed annually.
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied with The BIRMC is entrusted with approving the Bank's risk policy, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. The following reports provide an insight in this regard: Risk and Capital Management Report on pages 92 to 114. Board Integrated Risk Management Committee Report on pages 84 to 85.
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, Creditors, shareholders.	Complied with The Bank has a Board approved and implemented Communication Policy in place covering all stakeholders to ensure effective and timely communication.
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with The BAC is assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system. The Internal Audit Division and the Government Audit reviews on the same and those are reviewed by BAC and also the management responses on the same, during the year. The findings have been reported to the Board.

		Level of compliance in 2020
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with Key Management Personnel (KMP) are defined in the International Accounting Standards, who are in a position to significantly influence policy, direct activities and exercise control over business activities, operations and risk management. Appointment of all designated KMPs are recommended by the BNC and approved by the Board. The Bank has identified KMPs as per the CBSL Direction on Corporate Governance.
3 (1) (i) (g)	Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with Areas of authority of the Board of Directors are governed by Section 7 of NSB Act. The Board Charter prepared in accordance with the NSB Act details the areas of authority and key responsibilities of the Board of Directors. Board Human Resources and Remuneration Committee has defined the areas of authority and key responsibilities for the KMPs which are included in the job descriptions of each member of KMP.
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with The Board reviews the performance of the Bank against the Strategic Business Plan and receives reports from Board subcommittees on financial reporting, internal control, risk management and other relevant matters delegated to those committees. Further, KMPs are called by the Board to explain the matters under their purview as and when necessary.
3 (1) (i) (i)	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	Complied with A self-evaluation of the performance of the Board is carried out annually assessing its own governance practices. Related Party Transaction Policy is in place to manage the conflict of interest. Annual declarations of the Board of Directors in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. A self-evaluation of the performance of the Board was carried out annually assessing its own governance practices where the same was done for the year 2020.
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with A Board approved Succession Plan for the KMPs is in place.
3 (1) (i) (k)	Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with KMPs are regularly involved in discussions at the meeting of Board and its subcommittees on progress towards performance, strategy, policy and other matters pertaining to their area of responsibility. The Management is open and transparent with the Board, bringing all significant matters to its attention. Additionally, the KMPs make presentations on key items in the agenda under their purview and are called by the Board and its subcommittees relation to the material matters in there are with regard to policies towards corporate objectives.

		Level of compliance in 2020
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with The Directors are furnished with all the applicable regulatory requirements on appointment. The Compliance Officer brief on the regulatory developments to the Board of Directors enabling them to effectively discharge their duties. Additionally, Compliance Officer informs the Board on all returns reported to regulator on a monthly basis through the Compliance Report.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors.	Complied with The Auditor General is the External Auditor of the Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 37 in NSB Act as it is a State-Owned Bank. Further, the BAC is delegated with to review and monitor the independence, objectivity and the effectiveness of the audit process and make recommendations to Auditor General through Superintendent of Audit of any such external auditor appointed by the Auditor General to assist the Auditor General.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Under the provisions of Section 11 (1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995 the Chairman is appointed by the Minister. Section 26 (1) of the NSB Act states that the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Chairman and CEO's functions and responsibilities have been defined and approved by the Board. The responsibilities of Chairman and the CEO are defined and approved in line with the Section 3 (5) of this Direction which is given in the Board Charter.
3 (1) (iii)	The Board shall meet regularly, and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible.	Complied with Regular Board meetings are held each month with the active participation of Directors and the attendance at Board meetings is given on page 53 along with the number of meetings. The Bank has taken every measure to minimise obtaining the approval through circulation where it is done on an exceptional basis and such resolutions are ratified by the Board at the next Board meeting.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with

		Level of compliance in 2020
3 (1) (v)	The Board procedures shall ensure that notice of at least seven days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with Notice of meetings along with the agenda and the Board papers to be discussed are circulated seven days prior to the meeting to provide the Directors with additional time to attend on the matters and submit any urgent proposals.
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	Complied with The Directors are apprised of their attendance in accordance with the Banking Act Direction No. 12 of 2007. Details of Directors' attendance are given on page 53. No Director has been absent from two-thirds of the meetings in the immediately preceding 12 months or three consecutive meetings.
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with The Secretary to the Board of National Savings Bank is an Attorney-at-Law that complies with the provisions of Section 43 of the Banking Act No. 30 of 1988. The Board Secretary is primarily responsible for handling secretariat work to the Board and the other functions specified in the statutes and other regulations.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with All the Directors have the full access, to obtain advices and services of the Secretary to ensure that the Board procedures are followed with and the applicable rules and regulations are complied with.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with The Secretary to the Board prepares the minutes of the Board meetings and circulates same to all Board members. The minutes are reviewed and approved by the Board members at the next Board meeting after incorporating any amendments/inclusions proposed by the Directors.
	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board;	Complied with Minutes of the meetings are recorded and maintained covering the given criteria.

		Level of compliance in 2020
3 (1) (x)	(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied with Section 27 of the National Savings Bank Act states that the Board can obtain independent professional advice as and when required in discharging its duties. The Board Charter also details that the Directors upon reasonable request can seek independent professional advice in appropriate circumstances, at the Bank's expense.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.	Complied with The Directors make declarations of their interest at appointment and when there is a change. Related Party Disclosure Policy is in place that details on the conflict of interest and the matters and actions to be taken on such situations. Directors withdraw from the meeting, abstain from participating in discussions, voicing their opinion or approving in situations where there is a conflict of interest.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with The Board as the apex authority responsible for oversight of the Bank's activities ensures that direction and control of the Bank is firmly under its authority. The Board Charter details the powers reserved for the Board in discharging its duties effectively. Further, the Board has put in place systems and controls to facilitate discharging its duties.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of CBSL of the situation of the Bank prior to taking any decision or action.	Complied with The Bank is solvent, and no such situation has arisen during the year to challenge its solvency.

		Level of compliance in 2020
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank complies with the minimum capital adequacy requirements.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with This report forms part of the Corporate Governance Report of the Bank which is given from pages 39 to 91.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied with The Bank has adopted a scheme of self-assessment to be undertaken by every Director, annually which is maintained by the Secretary to the Board. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual and the effectiveness of the Board as a whole.
3 (2)	**Board's Composition**	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	As per Section 8 (1) of NSB Act the Board comprises seven directors including the Chairman. Details of the Board are given on pages 40 to 44 in this report.
3 (2) (ii) (a)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with The present Board of the Bank have been in the office for a period less than nine years. Details of their tenor are given on pages 40 to 44.
3 (2) (ii) (b)	A Director who has completed nine years as at 1 January 2008, or who completes such term at any time prior to 31 December 2008, may continue for a further maximum period of three years commencing 1 January 2009.	Complied with
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one third of the number of directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied with National Savings Bank Act No. 30 of 1971 and the amendments therein does not have provisions for an Executive Director in National Savings Bank.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	The Board has one Independent Director while five Directors are Non-Independent. The category of Directorship is given on pages 40 to 44 and 53.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Not applicable

		Level of compliance in 2020
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied with The Directors' profiles including the necessary information are mentioned on pages 40 to 44.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	Complied with As per the National Savings Bank Act, the quorum of the Board is four which is more than one-half of the Directors and all seven of the Directors are Non-Executive Directors.
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.	Complied with The independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors of the Bank. The composition of the Board by category of the Directors, including the names of the Chairman, Non-Executive Directors, Independent and Non-Independent Directors are given on pages 40 to 44.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with Appointments of Directors are carried as per the NSB Act under Section 8 (1) (a). Accordingly, five Directors are appointed by the Minister under whose purview the Bank comes in. One Director shall be the Secretary to the Treasury, or his nominee and the other Directors shall be the Postmaster General or his nominee.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Not Applicable This does not arise since the Directors are appointed by the subject Minister.
3 (2) (xi)	If a director resigns or is removed from office, the Board shall:	Complied with The Government of Sri Lanka, the sole shareholder of the Bank makes the appointments as well as removal of Directors through the Minister under whose purview the Bank falls in. Any resignation is also referred to the same Minister. The Central Bank of Sri Lanka are kept informed of the resignations.
(a)	Announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any and	
(b)	Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	The shareholder of the Bank is the Government of Sri Lanka and the changes to five members of the Board of Directors except the Ex officio Directors is carried out by the Government through the subject Minister.
3 (2) (xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Neither Directors nor employees of the National Savings Bank are appointed as Directors of another Bank, except for the appointment of Senior Deputy General Manager to the Regional Development Bank (RDB) as per the requirement of the constitution of RDB, Pradeshiya Sanwardana Bank Act No. 41 of 2008.

		Level of compliance in 2020
3 (3)	**Criteria to assess the Fitness and Propriety of Directors**	
3 (3) (i) (a), and (b)	The age of a person who serves as a director shall not exceed 70 years.	Complied with There are no Directors who are over 70 years of age.
3 (3) (ii)	A person shall not hold office as a director of more than 20 companies/ entities/institutions inclusive of Subsidiaries or associate companies of the Bank.	Complied with No Director holds directorships of more than 20 companies/ entities/institutions inclusive of Subsidiaries or associate companies of the Bank.
3 (4)	**Management Functions Delegated by the Board**	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with Delegation of authority is in place. The Board reviews and approves the delegation arrangements and ensures that the extent of delegation addresses the needs of the Bank while enabling the Board to discharge its functions effectively without any hindrances.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	
3 (5)	**The Chairman and Chief Executive Officer**	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	Complied with There is a clear separation of duties between the roles of the Chairman and the General Manager/CEO. A Board Charter is in place defining the responsibilities of the Chairman and the General Manager/CEO.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with Chairman of the Bank is a Non- Independent Non-Executive Director. Mr Eranga Jayewardene who is an Independent, Non-Executive Director was appointed as Senior Director to comply with the Direction.

		Level of compliance in 2020
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship	Complied with The identity of the Chairman and the General Manager/CEO are disclosed in Annual Report on pages 55 and 56. The Board is cognisant that there are no relationships of any kind of financial, business, family, any other material/relevant relationship between the Chairman and the General Manager/CEO. Also, there are no relationships among the other Board Members.
3 (5) (iv)	The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with The Chairman provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities. The Board in a timely manner discusses all key issues.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting,	Complied with The Secretary to the Board draws up the agenda for the meetings in consultation with the Chairman.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.	Complied with The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at the Board meetings. The following procedures are in place to ensure that: • Circulation of Board papers including the minutes of the previous meeting seven days prior to the Board meeting giving them sufficient time to review and call for additional information and clarification and after the meeting to follow up on issues consequent to the meeting • Clarification of matters by KMPs when required
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with The entire Board consists of Non- Executive Director.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with Chairman is a Non-Executive Director and she is not involved directly in executive functions to supervise KMPs or any other executive duties whatsoever.

Corporate Governance

		Level of compliance in 2020
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with The Bank keeps effective communication with the shareholder; Government of Sri Lanka. The Ex officio Director appointed as per the National Savings Bank Act acts as the channel of communication between the Board and the shareholder.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with The day-to-day operations of the Bank have been delegated to the General Manager/CEO. The Board Charter specifically details such authorities of the General Manager/CEO.
3 (6)	**Board Appointed Committees**	
3 (6) (i)	Each bank shall have at least four Board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	Complied with The Board has established seven committees where six committees have been established with written Terms of Reference. Terms of Reference of the Marketing Strategic Committee is in the process of preparation Four committees (Board Audit Committee, Board Human Resource Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee) of the seven committees are mandatory as per the Banking Act Direction No. 12 of 2017 while the other three committees are appointed to meet the business needs of the Bank. All the committees report directly to the Board through the Committee Chairpersons. The additional three committees, has been rescinded with effect from 8 February 2021, as the scope of these committees are covered by other four mandatory committees. The Secretary to the Board serves as the Secretary to all Board subcommittees except Board Marketing Strategic Committee who arranges the meetings and maintain minutes, records etc. under the Supervision of the Committee Chairman. Deputy General Manager (Marketing, Administration and Recovery) is the Secretary to the Board Marketing Strategic Committee who arranges the meetings and maintains the minutes. The reports of the Board subcommittee are given on pages 78 to 91. The Government being the sole shareholder, the Annual Report of the Bank is submitted to the Parliament of Sri Lanka and to the Ministry in charge of the Bank.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
3 (6) (ii) (a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/ or audit.	The Chairman of the Audit Committee is a Non-Independent Non-Executive Director. The Chairman of the Board Audit Committee holds required qualifications and experience. Profile of the Chairman of the Committee is given on page 42.

		Level of compliance in 2020
3 (6) (ii) (b)	All members of the Committee shall be Non-Executive Directors.	Complied with All the Directors of the Bank are Non-Executive Directors, hence all members in the Committee are Non-Executive Directors.
3 (6) (ii) (c)	The Committee shall make recommendations on matters in connection with:	
	(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Auditor General is the External Auditor of the Bank as per the statutes. Hence, the Committee has no role to play in the engagement of the External Auditor. As per the Terms of Reference, the Board Audit Committee makes the following recommendations among others: • Implementation of Central Bank guidelines issued to Auditors from time to time • The application of relevant accounting standards
3 (6) (ii) (d)	The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with Since the Auditor General is the External Auditor the independence and objectivity are maintained and guaranteed by the Constitution of Sri Lanka. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.
3 (6) (ii) (e)	The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	Not Applicable The Auditor General is the External Auditor of the Bank. However, as per the Board Audit Committee Charter, the Committee ensures that in the event the Auditor General appoints another External Auditor for assistance, it does not impair that firm's independence, objectivity or effectiveness. For the audit of the year 2020, Messrs Ernst & Young has been appointed.
3 (6) (ii) (f)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	Not Applicable The scope and the extent of audit have been determined by the Auditor General as the External Auditor.

		Level of compliance in 2020
3 (6) (ii) (g)	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the bank's annual report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with The Board Audit Committee has reviewed the quarterly Financial Statements and Annual Report of the Bank prepared for the disclosure purposes as and when ready for the publication. The Internal Audit Division submits a separate review report on the Financial Statements on each instance including the deviation in major judgemental areas, change in accounting policies etc., in the review report to the attention of Board Audit Committee. The BAC makes recommendation to the Board on the above based on the requirement to do so.
3 (6) (ii) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters.	Complied with The BAC discusses issues, problems and reservations arising from the interim and final audits. The representative of the Auditor General was present at the Committee meetings throughout.
3 (6) (ii) (i)	The Committee shall review the External Auditor's management letter and the Management's response thereto.	Complied with The Board Audit Committee reviews the External Auditor's Report issued under the Sections 14 (2) (c) and 13 (7) (a) of the Finance Act annually and the Management's response thereon.
3 (6) (ii) (j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:	
	(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	Complied with The Annual Audit Plan for the year 2020 prepared by the Internal Audit Division was submitted to the BAC was approved which includes the scope, functions and resource requirements relating to the plan.
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Complied with The Committee reviews the internal audit plan and the results of the internal audit procedures and ensures that appropriate actions are taken for improvements.
	(iii) Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department;	Complied with Performance appraisal of Chief Internal Auditor and the work process and results of the internal audit function are generally evaluated by the Audit Committee. Performance evaluation of senior staff is carried out according to the Board approved evaluation process by the Chief Internal Auditor and is tabled before the Board Audit Committee. The year 2020 evaluations were carried out.

		Level of compliance in 2020
	(iv) Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function;	Complied with No such situation has arisen during the year.
	(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department; including the chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied with No such situation has arisen during the year.
	(vi) Ensure that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied with According to the Governance structure of the Bank, Deputy General Manager (Audit) reports directly to the Board through BAC and is independent of any operations of the Bank.
3 (6) (ii) (k)	The Committee shall consider the major findings of internal investigations and Management's responses thereto;	Complied with The Board Audit Committee has reviewed major findings and Management's responses thereto. It also ensures that the recommendations of such investigations were implemented.
3 (6) (ii) (l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. The Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	Complied with The General Manager/CEO, Senior Deputy General Manager, Deputy General Manager (Audit) and a representative from Auditor General's Office normally attends the meetings. 6 meetings were held during the year 2020 and the representative of Auditor General's Office has attended 6 meetings with the General Manager/CEO.
3 (6) (ii) (m)	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it need to do so; (iii) full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with According to the Board Audit Charter, the Committee has been empowered with: • Explicit authority to investigate into any matter within its Terms of Reference • The resources which it needs to do so • Full access to information and • Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. Refer BAC report on pages 78 and 79.

		Level of compliance in 2020
3 (6) (ii) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities	Complied with The BAC has scheduled regular meetings. Additional meetings are scheduled when required. The Committee met six times during the year. Members of the BAC are served with due notice of issues to be discussed and conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary to the BAC/Secretary to the Board of National Savings Bank.
3 (6) (ii) (o)	The Board shall disclose in an informative way: (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings.	Complied with The Report of the BAC on pages 78 and 79 disclose the following: • Details of the activities of the Audit Committee • The number of BAC meetings held during the year 2020 • Details of attendance of each individual director at such meetings
3 (6) (ii) (p)	The Secretary of the Committee is the Company Secretary or the Head of the Internal Audit function and shall record and keep detailed minutes of the Committee meetings	Complied with The Secretary to the Board of National Savings Bank acts as Secretary to the BAC and detailed minutes are maintained.
3 (6) (ii) (q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied with The Bank has a Board approved Fraud Risk Management and Whistle-Blowing Policy in place which covers these aspects. Significant findings are reported to the BAC for appropriate follow-up actions. A process and proper measures are in place to conduct fair and independent investigation and appropriate follow-up action on any concerns raised by the employees of the Bank. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor.
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	
3 (6) (iii) (a)	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Remuneration of the Directors is decided by the subject Minister as per the Section 10 of the NSB Act No. 30 of 1971 and the amendments therein. The remuneration of the General Manager/CEO and KMPs is determined by the BHRRC based on the collective agreement and approved by the Board of the Bank.

		Level of compliance in 2020
3 (6) (iii) (b)	The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied with All the Directors of the Bank are Non-Executive Directors of whom five are appointed by the subject Ministry and the other two being Ex officio Directors according to the Section 8 of the NSB Act No. 30 of 1971 and the amendments therein. Therefore, specific goals and targets are not set for them. Goals and targets for the General Manager/CEO and the KMPs are set based on the Strategic Business Plan which are detailed in the Action Plan. These are linked to Key Performance Indicators of KMPs.
3 (6) (iii) (c)	The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with Criteria for evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals were submitted to the Committee by Board
3 (6) (iii) (d)	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with The General Manager/CEO attends all meetings of the Committee, except when matters relating to the General Manager/CEO are being discussed.
3 (6) (iv)	The following rules shall apply in relation to the Nomination Committee:	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Five Directors are appointed by the subject Minister while the other two Directors being the Ex officio Directors as per the NSB Act. According to the Section 11, the Minster shall nominate one of the Directors of the Board to be its Chairman. As per the Section 26, the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Board of Directors appoints KMPs with the recommendation of Board Nomination Committee.
3 (6) (iv) (b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors.	Not Applicable. Five Directors are appointed by the Minister while two Directors are Ex officio as per the NSB Act.

		Level of compliance in 2020
3 (6) (iv) (c)	The Committee shall set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied with The General Manager is appointed based on the accepted procedure with the approval of Board of Directors as per the NSB Act No. 30 of 1971 and the amendments therein. The Board approved promotion scheme is available which stipulates the attributes required to be eligible to or promoted to other Key Management positions.
3 (6) (iv) (d)	The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied with Signed affidavit and declarations of Directors and General Manager/CEO are obtained by the Board Secretary and the same are obtained from the KMPs by the Human Resource Development Division and forwarded to the Central Bank for assessing the fitness and propriety at the time of appointment.
3 (6) (iv) (e)	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with Appointment of the Chairman, Directors and the CEO are carried out according to the NSB Act No. 30 of 1971 and the amendments therein. A Board approved Succession Plan for the KMPs is in place. Appointments of KMPs are made by the Board of Directors according to the Succession Plan based on the recommendations of BNC.
3 (6) (iv) (f)	The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	The Committee is chaired by a Non-Independent Non-Executive Director.
3 (6) (v)	The Board Integrated Risk Management Committee:	
3 (6) (v) (a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with The Committee comprises of three Non-Executive Directors, General Manager/CEO and the Chief Risk Officer who is responsible for supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. Compliance Officer participate at all Committee meetings by invitation. Any other KMP and staff are invited based on the requirement. The Committee works closely with KMPs within the framework of authority and responsibility assigned.
3 (6) (v) (b)	The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with The Board has approved the Policies on Credit Risk Management, Market and Liquidity Risk Management, Operational Risk Management on the recommendation of the BIRMC that provides the framework for assessment and management of risks. The Risk Management Division submits monthly reports on risk indicators both on a bank basis and group basis based on the predefined risk appetite levels which are reviewed by the Committee.

		Level of compliance in 2020
3 (6) (v) (c)	The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with The Committee reviews reports of management level committees such as the Credit Committee, Investment Committee and the Asset and Liability Management Committee (ALCO) to assess the adequacy and effectiveness in addressing specific risks and to ensure those risks are managed within quantitative and qualitative risk limits as specified by the risk appetite level of the Bank which reviewed on a regular basis. The adequacy and effectiveness of all management level committees are reviewed by the BIRMC on an annual basis.
3 (6) (v) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks.	Complied with The Committee takes prompt corrective actions to mitigate the effects of specific risks in situations where such risks are beyond prudent levels decided by the Board on recommendations of the Committee based on the regulatory and policy level requirements.
3 (6) (v) (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	Complied with During the year the Committee had five meetings. Details of meetings and attendance are given on page 84.
3 (6) (v) (f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with The Bank has established a disciplinary action procedure to address such issues. No necessities have arisen during the year.
3 (6) (v) (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with The detailed minutes of the meetings are submitted to the next immediate Board meeting along with the recommendations and the Risk Management Reports.
3 (6) (v) (h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with The Compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on areas of business operations. This function is headed by a dedicated Compliance Officer (CO). CO submits reports periodically to the BIRMC/BAC/Board.

		Level of compliance in 2020
3 (7)	**Related Party Transactions**	
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person,	Complied with The Board approved Related Party Transactions Policy is in place covering related parties, their transactions and restrictions on offering more favourable treatment to related parties in order to avoid any conflict of interest by the Board of Directors. Directors are requested to declare their related party transactions individually. These transactions are monitored through an automated system.
3 (7) (ii)	The type of transaction with related parties that shall be covered by this Direction.	Complied with The Related Party Transactions Policy approved by the Board, covers the following transactions: • The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation. • The creation of any liabilities of the Bank in the form of deposits, borrowings and investments. • The provision of any services of a financial or non-financial nature to the Bank or received from the Bank. • The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. Information in this regard is disclosed in Note 49.5 on "Related Party Disclosures" on page 239.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	Complied with The Bank's Related Party Transactions Policy forbids transactions, which would grant related parties more favourable treatment than that accorded to other customers. Annual declarations are obtained from the Directors where such transactions would be identified. System is also developed to capture any transaction with "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business and reported to the Board periodically. Transactions (if any) carried out with Related Parties in the normal course of business are disclosed in Note 49.5 to the Financial Statements "Related Party Disclosures" on page 239.
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.	Complied with No such instances were recorded

		Level of compliance in 2020
3 (7) (v) (a)	Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with The Secretary to the Board obtains declarations from all the Directors prior to the appointment as a Director and they are requested to declare any further transactions. Employees of the Bank are aware of the requirement to obtain the necessary security as defined by the Monetary Board, if a need arises. The Compliance Division monitors the processes with this regulation. And a quarterly report is submitted to the Board.
3 (7) (v) (b)	Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	
3 (7) (v) (c)	Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of director and the Bank shall disclose such fact to the public.	
3 (7) (v) (d)	This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	
3 (7) (vi)	A bank shall not grant any accommodation or “more favourable treatment” other than on the basis of a scheme applicable to the employees of such bank.	Complied with No favourable treatment/accommodation provided to employees of the Bank other than staff benefits. Employees of the Bank are informed through circular instructions to refrain from granting favourable treatments to other employees or close relations.
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with No such instances were recorded.

Corporate Governance

		Level of compliance in 2020
3 (8)	**Disclosures**	
3 (8) (i)	The Board shall ensure that:	
3 (8) (i) (a)	annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that,	Complied with
3 (8) (i) (b)	Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil, and English.	Complied with
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
3 (8) (ii) (a)	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Disclosure on the compliance with applicable accounting standards and regulatory requirements, in preparation of the Annual Audited Financial Statements have been made on the "Statement of Directors' Responsibility for Financial Reporting" on pages 123 to 124 and "General Manager's/CEO and Deputy General Manager's (Finance and Planning) Statement of Responsibility" on pages 128 to 129.
3 (8) (ii) (b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with The Annual report includes the following reports where the Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. • Annual Report of the Board of Directors on pages 117 to 122. • Statement of Directors' Responsibility for Financial Reporting on pages 123 and 124. • Directors' Statement on Internal Control over Financial Reporting on pages 125 to 126.
3 (8) (ii) (c)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after 31 December 2008.	Complied with The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting, which is disclosed on pages 125 and 126.
3 (8) (ii) (d)	Details of Directors: (i) including names, fitness and propriety, (ii) transactions with the Bank, and (iii) the total of fees/remuneration paid by the Bank.	Complied with Profiles of the Directors are given on pages 40 to 44. Refer Note 49.5 to the Financial Statements on page 239. Refer Note 49.5 to the Financial Statements on page 239.

		Level of compliance in 2020
3 (8) (ii) (e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied with The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 49.5.3 to the Financial Statements on page 239.
3 (8) (ii) (f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration.	Complied with Details are given in Note 49.5.1 to the Financial Statements on page 239.
3 (8) (ii) (g)	The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports	Complied with The Bank has obtained a certificate from the Auditor General on the level of compliance with the Corporate Governance Direction No. 12 of 2007. All findings of the Auditor have been incorporated in this Corporate Governance Report.
3 (8) (ii) (h)	A report setting out details of the compliance with prudential requirements, regulations, laws, internal controls and measures taken to rectify any material non-compliance.	Complied with The Statement of Directors' Responsibility for Financial Reporting on pages 123 to 124 clearly sets out the details regarding compliance with prudential requirements, regulations, laws and internal controls.
	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Not applicable. There were no supervisory concerns on lapses in the Bank's risk management or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL and therefore, the Monetary Board has not directed any disclosures to be made public during the year.
3 (9)	Transitional and other general provisions	Complied with The Bank has complied with the applicable transitional provisions.

Table 15

Compliance requirement of the Corporate Governance Direction No. 12 of 2007

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4,400 – Engagements to Perform Agreed – Upon Procedure s Regarding Financial Information issued by The Institute of Charted Accountants of Sri Lanka to meet the compliance requirement of the Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. His findings given on his report dated 9 April 2021 were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.

Keasila Jayawardana

Anupama Muhandiram
Secretary to the Board

Keasila Jayawardena
Chairperson

9 April 2021
Colombo

Report of the Board Audit Committee

Composition of the Committee

In 2020

The Board of Directors of the National Savings Bank which consists of seven Directors and being constituted under the provisions of Section 8 (1), its sub-section of NSB Act No. 28 of 1995 and members for all the subcommittees including the Board Audit Committee members are being appointed out of the said Seven (07) members who possess necessary qualifications, skills and experience to serve BAC.

During the year under review, the Board Audit Committee comprised the following Non-Executive Directors:

Ms Manohari Abeyesekera
Chairperson/Non-Independent Non-Executive Director

Dr M K C Senanayake
Member/Non-Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director

Brief profiles of the members of the Board Audit Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

Current Board Audit Committee comprises the following Non-Executive Directors:

Ms Manohari Abeyesekera
Chairperson/Non-Independent Non-Executive Director

Dr M K C Senanayake
Member/Non-Independent Non-Executive Director

Mr H K D Lakshman Gamini
Member/Non-Independent Non-Executive Director

Regular Attendees by Invitation
Senior Deputy General Manager who is responsible for overseeing the finance function.

Deputy General Manager (Audit)

Secretary to the Committee
The Board Secretary functions as the Secretary to the Board Audit Committee.

Meetings

Name	Eligible to attend	Attended
Ms Manohari Abeyesekera	06	06
Dr M K C Senanayake	06	06
Mr M T J Perera	05	05

During the financial year ended 31 December 2020 the Committee held six meetings and quorum of the Committee is two members as per the Charter of the BAC.

The Superintendent of Audit – National Audit office attended six BAC meetings on invitation as an observer as the representative of the Auditor General. The Board Audit Committee conducted two special discussions with Superintendent of Audit – National Audit Office. Same were attended by members of BAC, Superintendent of Audit – National Audit Office and Secretary to the Board of Directors only.

The Senior Management including General Manager/CEO of the Bank participated the meeting by invitation on a need basis.

Report of the Board Audit Committee

Charter of the Board Audit Committee

The Charter of the BAC has been approved by the Board of Directors and renewed regularly (once in three years), clearly defines the Terms of Reference of the Committee. The Committee Charter was last reviewed in year 2018 by taking into consideration the new developments in the banking sector.

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks" issued by the Central Bank of Sri Lanka under Section 3 (6) (ii) and its subsequent amendments, provision of the Public Enterprises Guidelines for Good Governance and "Code of Best Practice on Corporate Governance" issued by The Institute of Chartered Accountants of Sri Lanka.

Role and responsibilities of the Committee

The Committee is empowered by the Board of Directors in discharging its responsibilities and fulfilling its oversight responsibilities for:

1. The integrity of the Bank's Financial Statements
2. The effectiveness of the Bank's risk management function
3. The performance of the Bank's internal audit function; and
4. The performance of the Bank's external audit function.

The Charter also stipulates the functions and responsibilities, and the authority of the Committee. The Charter Checklist was used to assist the Committee to assess its compliance to the Charter in performing Committee's functions and discharging its responsibilities.

The Committee is directly reporting to the Board of Directors about its activities along with the minutes of the meetings. BAC provides open avenue of communication between internal audit, external audit and the Board of Directors. The Committee is of the view that Terms of Reference (TOR) of the Committee were compiled within all material aspects.

Activities in 2020

Committee attended following activities within the year 2020:

- Approved the Audit Plan for the year 2020
- Reviewed Management Letters and Reports of Auditor General and Management responses thereon
- Reviewed Internal Audit Reports (Detailed Branch Audits, Audit of Head Office Divisions, Surprise Audits and Special assignments given to the Internal Audit Division by the Board or BAC). Further guidance to avoid recurrence of same issues has also been provided by the Committee
- Reviewed the Draft Financial Statements (Quarterly and Annually) and recommended same to the Board of Directors
- Reviewed Risk categorisation of Branches – Based on Detailed Audits
- Audit of Business Continuity Plan
- Attention towards major fraudulent activities taken place within the Bank and following up progress of actions taken by the Bank
- Reviewing reports of resource utilisations audits
- Reviewed key policy matters including Anti Bribery and Corruption Policy which provide guiding light to maintain integrity and discipline in all aspect
- Recommendation of writing off loss incurred to Bank

The Committee further paid special attention towards formats of regular reports submitted to the Committee and noted the need of improvement to format and content of same. Instructions for improvement has also been given to respective officials.

The Committee, having considered pandemic situation during the year, has provided guidelines to set up a special task force comprised of senior officials in order to take proactive measures to counter challenges emerged as a result of COVID-19 pandemic.

Committee Evaluation

Committee annually conducts an evaluation of the effectiveness of the Committee and results are communicated to the Board. Evaluation over performance of the Committee was conducted based on the Charter Checklist and Self-Assessment Guide.

The Committee completed the evaluation process with self-assessment for the year 2020 and concluded that its performance was effective where the results of evaluation were communicated to the Board.

Manohari Abeyesekera
Chairperson
Board Audit Committee

19 March 2021
Colombo

Report of the Board Human Resource and Remuneration Committee

Composition of the Committee

In 2020

During the year under review, the Board Human Resource and Remuneration Committee comprised the following Non-Executive Directors:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director

Mr U G R Ariyaratne
Member/Non-Independent Non-Executive Director
(From 17 January 2020 to 22 April 2020/from 28 October 2020)

Dr Thiran De Silva
Member/Non-Independent Non-Executive Director
(Until 9 October 2020)

Mr M T J Perera
Member/Non-Independent Non-Executive Director
(From 22 April 2020 to 28 October 2020)

Mr Eranga Jayewardene
Member/Independent Non-Executive Director
(From 28 October 2020 to 8 January 2021)

Brief profiles of the members of the Board Human Resource and Remuneration Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

Present Board Human Resource and Remuneration Committee comprises the following Non-Executive Directors:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director

Mr U G R Ariyaratne
Member/Non-Independent Non-Executive Director

Mr H K D Lakshman Gamini
Member/Non-Independent Non-Executive Director

Regular Attendees by Invitation

The General Manager/CEO provides information to the Committee and attends all meetings of the Committee, except when matters relating to the General Manager/CEO are being discussed.

The Deputy General Manager (Human Resource Development) and Senior Management of the Bank participated the meetings by invitation on a need basis.

Secretary to the Committee

The Board Secretary functions as the Secretary to the BHRRC.

Meetings

The Committee meetings are held quarterly however based on the needs, meetings are being fixed. Accordingly, six (6) meetings were held during the year 2020 and quorum of the Committee is two members as per the Charter of the BHRRC.

Attendance of the Committee members during the year are as follows:

Name	Eligible to attend	Attended
Ms Keasila Jayawardena	06	06
Mr U G R Ariyaratne	01	01
Dr Thiran De Silva	05	05
Mr M T J Perera	05	05
Mr Eranga Jayewardene	00	00

Report of the Board Human Resource and Remuneration Committee

Charter of the Board Human Resource and Remuneration Committee

The Board Human Resource and Remuneration Committee (BHRRC) constituted in terms of the provisions of Section 3 (6) (i) and (iii) of Banking Act Direction No. 12 of 2007 issued by the Monetary Board of the Central Bank of Sri Lanka (CBSL) under Section 76 J (1) of the Banking Act No. 30 of 1988, as amended. The Committee reports directly to the Board of Directors and the proceedings of committee meetings have been regularly reported to the Board of Directors.

Role and responsibilities of the Committee

The Role and Responsibilities of the Committee, as per the Charter, includes the followings:

- Determining the remuneration policy (salaries, allowances and other financial payments) relating to the General Manager/CEO and Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreement.
- Setting goals and targets for General Manager/CEO and the Key Management Personnel.
- Evaluation of performance of the General Manager/CEO and Key Management Personnel against the set targets and goals periodically
- Determining the basis for revising remuneration, benefits and other payments of performance-based incentives.

The Committee reviews all significant Human Resource Policies, initiatives, salary structures besides terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations were obtained from the General Manager/CEO and the Senior Management of the Bank.

Activities During the Year 2020

- Arriving at decisions on promotions, disciplinary matters, training and development of staff
- Finalisation of the Manpower Plan of the Bank for the year 2020
- Attention towards need of a succession plan of the Bank
- Approval for Training Plan for the year 2020
- Amendment to identified Schemes of Recruitment
- Structural changes to identified divisions
- Directed the Management to review the existing promotion schemes
- Directed the Management to review the existing transfer policy of the Bank
- Practice of reserving the position held by staff members who take up study course/employment abroad on approved no-pay leave until their return was discontinued

The Committee, in addition to routine matters lined up for discussion, paid attention towards recruitment to the posts of Chief Marketing Officer and Chief Legal Officer, which were within the category of Corporate Management of the Bank.

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2020 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Keasila Jayawardena

Chairperson
Board Human Resource and Remuneration Committee

19 March 2021
Colombo

Report of the Board Nomination Committee

Composition of the Committee

In 2020

During the year under review, the Board Nomination Committee (BNC) comprised the following Non-Executive Directors:

Mr U G R Ariyaratne
Chairperson/Non-Independent Non-Executive Director

Dr M K C Senanayake
Member/Non-Independent Non-Executive Director

Dr Thiran De Silva
Member/Non-Independent Non-Executive Director (From 17 January 2020 to 9 October 2020)

Mr Eranga Jayewardene
Member/Independent Non-Executive Director (From 28 October 2020)

Brief profiles of the members of the Board Nomination Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

Present Board Nomination Committee comprises the following Non-Executive Directors:

Mr U G R Ariyaratne
Chairperson/Non-Independent Non-Executive Director

Dr M K C Senanayake
Member/Non-Independent Non-Executive Director

Mr Eranga Jayewardene
Member/Independent Non-Executive Director

Regular Attendees by Invitation
The General Manager/CEO provide information to the Committee and attends meetings of the Committee on invitation.

Secretary to the Committee
The Secretary to the Board, functions as the Secretary to the BNC as well.

Meetings
During the year 2020, two Nomination Committee meetings were held, and quorum of the Committee is two members as per the charter of the BNC.

Attendance of the Committee members during the year are as follows:

Name	Eligible to attend	Attended
Mr U G R Ariyaratne	02	02
Dr M K C Senanayake	02	02
Dr Thiran De Silva	02	02
Mr Eranga Jayewardene	00	00

Report of the Board Nomination Committee

Charter of the Committee

The Board of Directors has established the Board Nomination Committee (BNC) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under section 76 J (1) of the Banking Act No. 30 of 1988 as amended, to ensure Board oversight and control over selection of Key Management Personnel.

Role and responsibilities of the Committee

The Board Nomination Committee is responsible for implementing a procedure to select/appoint General Manager/CEO and Key Management Personnel, setting out criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of General Manager/CEO and the Key Management Positions.

Further, the Committee shall ensure that the Directors, General Manager/CEO and Key Management Personnel are fit and proper persons to hold office specified in the criteria given in Direction 3 (3) and as set out in the Statutes. The Committee shall also consider and recommend from time to time, the requirements of additional/new expertise and succession arrangements for retiring Key Management Personnel.

Activities During the Year 2020

Most important task attended by the Committee during the year was recruitment/selection of a suitable candidate for the position of General Manager/CEO. The Committee finalised the selection/evaluation criteria for appointment of the General Manager/CEO of the Bank.

Promotion of three Assistant General Managers into the grade of Deputy General Manager.

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2020 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

U G R Ariyaratne
Chairperson
Board Nomination Committee

19 March 2021
Colombo

Report of the Board Integrated Risk Management Committee

Composition of the Committee

In 2020

During the year under review, the Board Integrated Risk Management Committee (BIRMC) comprised three Non-Executive Directors.

The following members functioned as members of BIRMC for the year 2020:

Dr M K C Senanayake
Chairperson/Non-Independent Non-Executive Director

Ms Manohari Abeyesekera
Member/Non-Independent Non-Executive Director (From 17 January 2020 to 28 October 2020)

Mr M T J Perera
Member/Non-Independent Non-Executive Director (From 22 April 2020)

Mr Eranga Jayewardene
Member/Independent Non-Executive Director (From 28 October 2020)

Non-Board members:
General Manager/CEO
Chief Risk Officer

Brief profiles of the Board members and the General Managers/CEO of the Board Integrated Risk Management Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

Present Board Integrated Risk Management Committee (BIRMC) comprises three Non-Executive Directors.

Dr M K C Senanayake
Chairperson/Non-Independent Non-Executive Director

Mr Eranga Jayewardene
Member/Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director

Regular Attendees by Invitation
The Committee requested other DGMs, AGMs, Compliance Officer, and Chief Managers to be present at the meetings as and when required.

Secretary to the Committee
The Secretary to the Board, functions as the Secretary to the BIRMC.

Meetings
BIRMC meets on a quarterly basis however based on the needs, meetings are being fixed accordingly. During the year 2020, NSB convened five meetings and minimum quorum of the Committee is two-third as per the charter of the BIRMC.

Attendance of the Committee members during the year are as follows:

Name	Eligible to attend	Attended
Dr M K C Senanayake	05	03
Ms Manohari Abeyesekera	04	04
Mr M T J Perera	04	03
Mr Eranga Jayewardene	01	01

Report of the Board Integrated Risk Management Committee

Charter of the Committee

The Board of Directors has established the Board Integrated Risk Management Committee (BIRMC) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka, issued by the Monetary Board of Central Bank of Sri Lanka under the power vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988.

Role and responsibilities of the Committee

The Terms of Reference set out by the Board of Directors, roles and responsibilities of the Committee consist following:

- Setting Risk Appetite and Tolerance limits to the Bank.
- Reviewing Risk Management Policies of the Bank.
- Ensure compliance with Basel III and CBSL directions/guidelines.
- Ensure the risk management strategy, framework and methodology are implemented/practiced throughout the Bank consistently as per the Integrated Risk Management (IRM) Framework.
- Determine the scope of the Risk Management Division (RMD) and to guide the function of RMD to ensure effective implementation of the IRM Framework.
- Ensure that the RMD consists of staff with necessary expertise to carry out risk management functions effectively and they are provided with required infrastructure.
- Recommend obtaining the services of outside experts and consultants in risk management if required.
- Advise the Board in fulfilling its responsibilities relating to risk management.
- Examine the Bank's Pillar I and Pillar II risks and Risk Management/Mitigation approaches such as Limit Monitoring, Business Continuity Plan, Information Security Plan through periodical reports.
- Review the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.

BIRMC grants approval for proposals within its mandate and recommends proposals/reports to the Board of Directors which required to be scrutinised by the Board.

BIRMC is supported by Risk Management, Compliance Divisions and other operational divisions in discharging its responsibilities.

Activities During the Year 2020

- Reviewed reports submitted by the Compliance Division including Compliance Assessment over selected Divisions, Compliance Certificate submitted on biannual basis, compliance programme of the Bank.
- Reviewed the progress of Liquidity Plan of the Bank.
- Reviewed risk management policies of the Bank and recommended same to the approval of the Board.
- Reviewed charters/TORs of key management committees of the Bank and recommended same to the Board for approval.
- Reviewed reports on Risk Appetite Framework and Risk Tolerance Limit, quarterly report on overall risk management aspect of the Bank.
- Reviewed reports on Risk Control Self-Assessment (RCSA).
- Reviewed the Information Security Policy of the Bank and recommended to the Board for approval.
- Detailed consideration over accounts of Politically Exposed Persons (PEP).
- Reviewed the Internal Capital Adequacy Assessment Process (ICAAP) document of the Bank.
- Reviewed adequacy and effectiveness of management committees.
- Compliance assessment over Safe Deposit Boxes of the Bank.

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2020 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Dr M K C Senanayake
Chairperson
Board Integrated Risk Management Committee

19 March 2021
Colombo

Report of the Board Credit Committee

Composition of the Committee

In 2020

The Board Credit Committee (BCC) comprised three Non-Executive Directors.

During the year under review, the BCC comprised the following Non-Executive Directors:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director
(From 17 January 2020 to 22 April 2020/From 28 October 2020)

Dr Thiran De Silva
Chairperson/Non-Independent Non-Executive Director
(From 22 April 2020 to 9 October 2020)

Mr Eranga Jayewardene
Member/Independent Non-Executive Director
(From 17 January 2020 to 28 October 2020)

Ms Manohari Abeyesekera
Member/Non-Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director
(From 28 October 2020)

Brief profiles of the members of the Board Credit Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

In 2021 BCC comprised the following Non-Executive Directors until its rescindment with effect from 8 February 2021:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director

Ms Manohari Abeyesekera
Member/Non-Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director

Regular Attendees by Invitation
General Manager/CEO, DGM (Credit) and DGM (Operations) attended meetings during the year as invitees.

Secretary to the Committee
The Secretary to the Board, functions as the Secretary to the BCC.

Meetings
During the financial year ended 31 December 2020, four BCC meetings were held. The quorum for a meeting is two members.

Attendance of the Committee members during the year are as follows:

Name	Eligible to attend	Attended
Ms Keasila Jayawardena	01	01
Ms Manohari Abeyesekera	04	04
Mr Eranga Jayewardene	04	04
Dr Thiran De Silva	03	02

Report of the Board Credit Committee

Charter of the Committee

The Board of Directors has established the Board Credit Committee (BCC) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76 J (1) of the Banking Act No. 30 of 1988 as amended and National Savings Bank Act No. 30 of 1971 as amended, to conduct periodic reviews on the Credit Policy and Investment Policy of the Bank as and when required, and to engage in approving of credit facilities and investments within the limits delegated to.

Roles and responsibilities of the Committee

Reviews and recommends the Banks strategic objectives with respect to credit and investment including policies, procedures and other related policy level documents.

Assists the Board of Directors through efficient and effective management relating to Credit Policy and Investment Policy of the Bank in order to promote and reinforce a sound, robust and healthy credit risk acceptance and management culture.

Approves and advises on the pricing of Loans and Advances and Investments in accordance with the recommendations by Assets and Liability Management Committee (ALCO).

Ensuring implementation of appropriate systems to manage risks and strengthen internal controls and management information systems with respect to credit aspect of the Bank.

Activities during the year 2020

Reviewed, approved and recommended credit proposals in terms of the level of authority vested with the Committee.

Approval to execute Deeds of Cancellation and Deeds of Release pertaining to credit facilities of the Bank.

Reviewed, approved and recommended recovery matters within the authority vested with the Committee.

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2020 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Keasila Jayawardana

Ms Keasila Jayawardana

Chairperson
Board Credit Committee

19 March 2021
Colombo

Report of the Board Information Technology Strategic Committee

Composition of the Committee

In 2020

The Board Information Technology Strategic Committee (BITSC) comprised three Non-Executive Directors.

During the year under review, the BITSC comprised the following Non-Executive Directors:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director (From 17 January 2020 to 7 February 2020 and from 28 October 2020)

Dr Thiran De Silva
Member/Non-Independent Non-Executive Director (From 17 January 2020 to 15 May 2020) (Chairperson from 7 February 2020 to 15 May 2020)

Ms Manohari Abeyesekera
Member/Non-Independent Non-Executive Director (From 7 February 2020 to 22 April 2020)

Mr U G R Ariyaratne
Member/Non-Independent Non-Executive Director (Chairperson from 15 May 2020 to 28 October 2020)

Mr Eranga Jayewardene
Member/Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director (From 22 April 2020 to 28 October 2020)

Brief profiles of the members of the Board Information Technology Strategic Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

In 2021 BCC comprised the following Non-Executive Directors until its rescindment with effect from 8 February 2021:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director

Mr U G R Ariyaratne
Member/Non-Independent Non-Executive Director

Mr Eranga Jayewardene
Member/Independent Non-Executive Director

Regular Attendees by Invitation
The General Manager/CEO provide information to the Committee and attends meetings of the Committee on invitation.

Secretary to the Committee
The Secretary to the Board, functions as the Secretary to the BITSC also.

Meetings
During the financial year ended 31 December 2020, six BITSC meetings were held and quorum of the Committee is two-third as per the charter of the BITSC.

Attendance of the Committee members during the year are as follows:

Name	Eligible to attend	Attended
Ms Keasila Jayawardena	02	01
Dr Thiran De Silva	02	02
Mr Eranga Jayewardene	06	06
Ms Manohari Abeyesekera	01	01
Mr U G R Ariyaratne	04	04
Mr M T J Perera	03	03

Report of the Board Information Technology Strategic Committee

Charter of the Committee

The Board of Directors of the Bank has established the Board Information Technology Strategic Committee (BITSC) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76 J (1) of the Banking Act No. 30 of 1988 as amended.

The BITSC was established in order to ensure the Banks reliance over Information Technology and oversee the Bank's strategic objectives in accordance with the Information and Communication Technology (ICT).

Role and responsibilities of the Committee

Establish and review Information Technology Governance Framework to ensure leadership support, organisational structure and Bank's IT process, value delivery, IT risk management, resource management and performance management.

Ensure adequacy and effectiveness of Business Continuity Management and Disaster Recovery of Information Communication Technology Systems of the Bank.

Ensure adequacy and effectiveness of Information Systems Security according to CBSL directions and international best practices.

Activities attended by the Committee during the year 2020

- Reviewed and finalised the decision over method of implementation of the Core-banking Solution of the Bank
- Approved and recommended proposals of IT related procurements
- Approved and recommended annual procurement plan for IT requirements of the Bank

Committee Evaluation

The Committee completed the evaluation process with self-assessment for the year 2020 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Keasila Jayawardena

Keasila Jayawardena

Chairperson
Board Information Technology Strategy Committee

19 March 2021
Colombo

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Report of the Board Marketing Strategic Committee

Composition of the Committee

In 2020

The Board of Directors of the National Savings Bank which consists of seven Directors and being constituted under the provisions of Section 8 (1), its sub-section of NSB Act No. 28 of 1995 and members for all the subcommittees including the Board Marketing Strategic Committee members are being appointed out of the said Seven (07) members who possess necessary qualifications, skills and experience to serve BMSC.

During the year under review, the Board Marketing Strategic Committee comprised the following Non-Executive Directors:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director

Dr Thiran De Silva
Member/Non-Independent Non-Executive Director
(From 22.04.2020 to 09.10.2020)

Mr Eranga Jayewardene
Member/Independent Non-Executive Director

Ms Manohari Abeyesekera
Member/Non-Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director

Brief profiles of the members of the Board Marketing Strategic Committee during 2020 are given on pages 40 to 44 under the Corporate Governance Report.

In 2021

In 2021 BMSC comprised the following Non-Executive Directors until its rescindment with effect from 8 February 2021:

Ms Keasila Jayawardena
Chairperson/Non-Independent Non-Executive Director

Mr Eranga Jayewardene
Member/Independent Non-Executive Director

Ms Manohari Abeyesekera
Member/Non-Independent Non-Executive Director

Mr M T J Perera
Member/Non-Independent Non-Executive Director

Mr H K D Lakshman Gamini
Member/Non-Independent Non-Executive Director

Regular Attendees by Invitation
General Manager/CEO

Secretary to the Committee
Deputy General Manager (Marketing, Administration and Recovery) functions as the Secretary to the Board Marketing Strategic Committee.

Meetings
During the financial year ended 31 December 2020 the Committee held six meetings.

Attendance of the Committee members during the year are as follows:

Name	Eligible to attend	Attended
Ms Keasila Jayawardena	06	06
Dr Thiran De Silva	02	00
Mr Eranga Jayewardene	06	04
Ms Manohari Abeyesekera	06	06
Mr M T J Perera	06	06

Report of the Board Marketing Strategic Committee

Charter of the Board Marketing Strategic Committee

The draft Terms of Reference of Board Marketing Strategic Committee was submitted to the Committee for review and approval for submission to Board of Directors. However, the Committee was discontinued with effect from 8 February 2021. Therefore, the Committee chaster was not constituted.

Role and responsibilities of the Committee

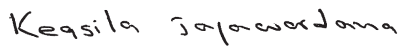
The Board Marketing Strategic Committee (BMSC) of the Bank was constituted for policy level supervision and guidance over marketing strategies and implementation with special focus on the 50th Year Anniversary Celebration of the Bank.

Activities in 2020

- Determination of the delegated authority limits of the Committee
- Discussion and finalisation of the activities to be carried out for the celebration of the Golden Jubilee of the Bank
- Discussion of the matters that require due attention in order to improve the market share and brand value of the Bank.

Committee Evaluation

The Committee was constituted in April 2020 and dissolved with effect from 8 February 2021. Therefore, evaluation process with self-assessment for the year 2020 was not conducted.



Keasila Jayawardena

Chairperson
Board Marketing Strategic Committee

19 March 2021
Colombo

Risk and Capital Management

With a global pandemic, year 2020 turned out to be a year like no other. Banks had to face unprecedented challenges in sustaining business operations while providing relief to the affected customers. NSB played a key role by extending support to the Government and the customers whilst being resilent in a stressed condition.

Despite the continued pressure existed on Bank's operating environment, and further expectations on downside risk to the domestic economy due to spread of the virus, NSB stands with resilent performance supported by the measures taken by regulator on credit quality, liquidity and other regulatory reliefs.

Eventhough with increased expected credit losses, the Bank managed to improve the profitability given the low interest rate environment backed by pattern of repricing the rate sensitive maturity profile of assets and liabilities.

In 2019, regulatory capital requirement of the Bank was lowered due to non-categorisation as a Domestic Systemically Important Bank (D-SIB) as per the CBSL Direction No. 12 of 2019. With the issuance of Additional Tier I (AT I) instrument, the Bank was able to meet the regulatory requirement on capital adequacy ratios well above the minimum requirements.

Notwithstanding the deteriorating sovereign profile of the country, the Bank managed to repay the instalments of USD denominated borrowing on due dates from internal funds without incurring additional pressure on cost and funding requirements.

The Bank adhered to CBSL directions and Government initiatives on concessions given to pandemic affected businesses and individuals, which are provided in order to safeguard the financial system and the economy.

The COVID-19 crisis is the toughest test that the global financial system faced since 2007–2009 financial crisis and of which long-term effects are still unknown, making the challenges much more difficult. Banks faced margin and volume compression because of lower interest rates and dampening of client activity and investment. Deteriorating credit quality among counterparties resulted in higher default rates and increased pressure on profitability and regulatory capital.

Bank's sound risk governance framework made it possible for the Bank to manage the underlying risks effectively and navigate the difficult year with minimal adverse impact on the overall risk profile, current year performance and long-term sustainability.

The risk and capital management report discusses the risks and capital levels in a COVID-19 stressed environment and risk management initiatives taken by the Bank to minimise the adverse impacts on credit quality, profitability, liquidity and capital level of the Bank.

Governance Committees: Board Level

Committee	Responsibility
Board Integrated Risk Management Committee (BIRMC)	BIRMC assists the Board in fulfilling risk related responsibilities to recommend an effective risk management framework to the Board. Key purposes of BIRMC are to establish risk appetite, evaluate the risk profile against risk appetite and recommend the Internal Capital Adequacy Assessment Process (ICAAP).
Board Audit Committee (BAC)	BAC monitors the effectiveness and efficiency of internal control processes and internal audit function. BAC ensures integrity of information, usage of appropriate accounting policies and monitor legal and regulatory compliance issues.

Table 16 Board level risk management committees

Senior Management has taken steps to enhance the rigour of governance over both financial and non-financial risks by establishing a Management Committee framework focusing on identifying and understanding existing and emerging risks, trends and issues across all the business lines, providing better insights for informed decision-making. Management committees played a crucial role in managing risks/returns and operations with COVID-19 impediments.

Risk governance

Bank is committed to ensure that its risk management practices reflect a high standard of governance. This enables the Board and the Senior Management to effectively and prudently undertake risk-taking activities. The Board operates as the highest level in the governance framework.

The Board, through the risk oversight role ensures that Senior Management has established an integrated framework to manage various risk exposures and to ensure internal policies are appropriately established and complied with. The Board with the assistance of BIRMC played a critical role to manage increased risk areas amidst COVID-19 and to comply with directives provided by the regulator and the government. All risk types, both financial and non-financial, are managed and reported in accordance with the Bank's Integrated Risk Management Framework.

Governance Committees: Senior Management Level

Management Committee	Responsibility
Credit Committee (CC)	CC is the apex level management committee to oversee all Pillar I and Pillar II credit risks including credit default risk, operational and legal risks in credit of the Bank. CC periodically reviews/implements the Credit Policies of the Bank, engage in approving of credit facilities i.e. Retail Loans and Corporate Loans (Project loans, Lending to Corporates, Lending to Banks and Financial Institutions and Lending to SOEs/Government etc.) within the delegated authority limits and to recommend credit facilities to the Board.
Asset and Liability Management Committee (ALCO)	ALCO is the management committee responsible to manage the market risk and liquidity risk of the Bank. The committee aims to manage the volume, mix, maturity, rate sensitivity, quality and liquidity of assets and liabilities to attain a predetermined acceptable risk/return ratio. The function of ALCO includes policy decisions with regard to management of on and off-balance sheet positions considering capital structure, product pricing, funding and investments with the aim of stabilising earnings and solvency of the Bank.
Investment Committee (IC)	IC is the apex level management committee to oversee both Pillar I and Pillar II risks including credit risk, market risk, operational risks relating to the investments of the Bank. The committee reviews/implements the Investment Policy of the Bank, to engage in approving of investment in Government Securities, Investment in shares [both Initial Public Offerings (IPOs) and secondary market operations], and other investments within the delegated authority limits, recommending investments to the Board.
Operational Risk Management Committee (ORMC)	ORMC manages the operational risk of the Bank and implements Operational Risk Management techniques and take measures which aims to maintain the integrity of internal controls, reduce errors in transaction processing, prevent frauds etc. to minimise the operational losses of the Bank.
Information Security Committee (ISC)	ISC is established to oversee the implementation of the Information Security Policy of the Bank. ISC monitors that all information systems and related infrastructure are secure and safeguard from cyber threats. In addition, the committee monitors the Information Security related regulatory requirements and compliance to required industry standards and certifications.

Table 17 Management Committees

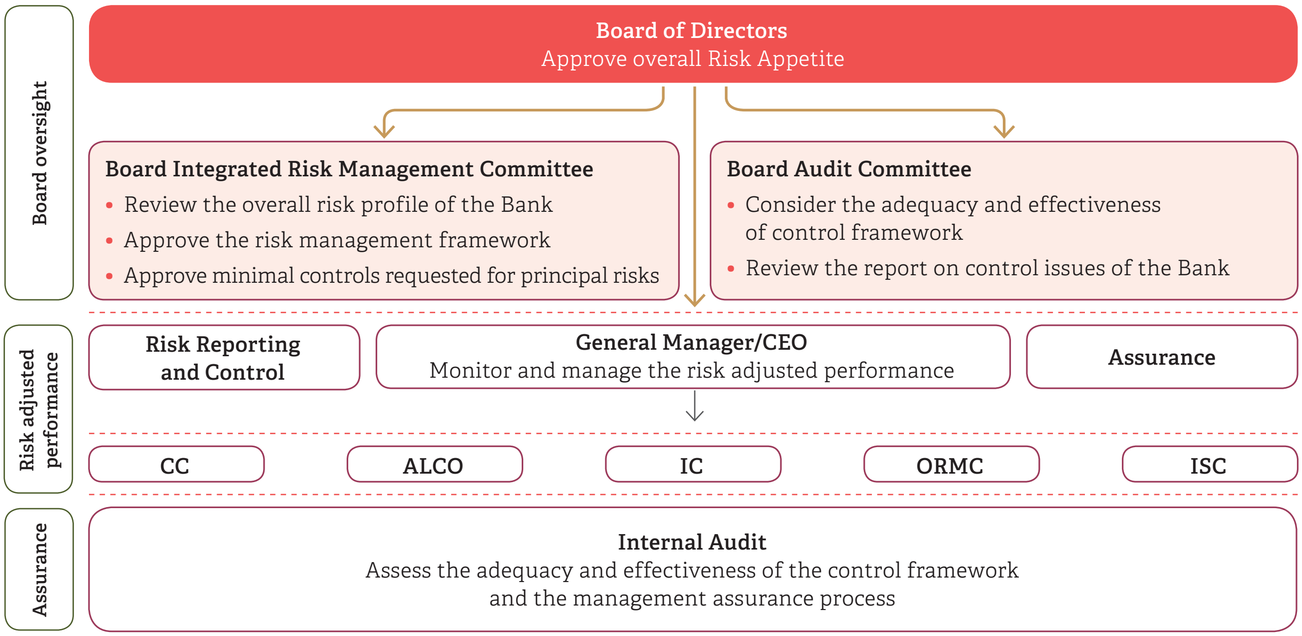


Figure 05 Risk Management Governance Structure

Second Line of Defence plays a critical role by supporting the management, BIRMC and Board to understand the impacts from COVID-19 stress environment and facilitates responding proactively to minimise impacts.

Risk Management Division (RMD) headed by the Chief Risk Officer (CRO) participates in BIRMC and Management Committees. RMD consists of three units namely, Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU)/Treasury Middle Office (TMO) and Operational Risk Management Unit (ORMU). RMD independently monitors all risks against the Board approved policies, processes and limits. Independent findings from risk evaluations are reported to Management Committees, BIRMC and Board to facilitate in managing risks and to take preventive and corrective actions.

Compliance Division headed by the Compliance Officer is committed to ensure adherence to all rules, regulations, directions and guidelines of the Central Bank of Sri Lanka (CBSL) and other regulatory and government authorities applicable to the Bank. The division is duly updated of the changing regulatory and compliance environment and follows up with relevant divisions/branches to ensure that the new directions are properly communicated among relevant staff members.

Risk management framework

Sound corporate governance principles coupled with the "Three Lines of Defence Model" are entrenched in risk management framework of the Bank. Risk management framework enables appropriate development and implementation of strategies, policies and procedures for identifying, assessing, measuring, mitigating monitoring and reporting risks to ensure prudent risk management. Ownership and responsibility for risk management lies with all individuals engaged in business operations.

The Three Lines of Defence model places accountability for risk ownership which recognises that the Bank is in a better position to make optimal long-term risk and return decisions that consider the full end-to-end value chain. Risk and Compliance functions provide the guidance, advice and assurance for the business owners accountable for decision making to manage the risk, while internal audit provides independent assurance to the Board, regulators and other stakeholders of the effectiveness of risk management, internal controls and governance.

Regulators and external auditors provide valuable inputs to strengthen internal controls and risk management framework, which is an additional assurance to the stakeholders.

Risk culture

Culture is a collection of values, skills and habits that equip employees and directors to understand the risks and make sound judgements in the absence of definitive rules, regulations or market signals. The employees at all levels understand the risk in their respective business operations. Risk culture is a key driver to ensure risk and return trade off and managing of the risks and capital levels.

Integrated Risk Management Policies

Policy	Coverage
Integrated Risk Management Policy	Integrated Risk Management Framework of the Bank.
Credit Risk Management Policy	Framework for identification, assessment, management and mitigation of risks in retail credit, corporate credit, loans to Banks & Financial Institutions, Loans to SOEs and SOBEs.
Market and Liquidity Risk Management Policy	Framework for identification, assessment, management and mitigation of Market and Liquidity Risk.
Operational Risk Management Policy	Framework for identification, assessment, management and mitigation of Operational Risk.
Stress Testing Policy	Outlines the Stress Testing Framework of the Bank.
Risk Management Disclosure Policy	The disclosure requirements with respect to the Risk Management functions.
ICAAP Management Policy	Provides the framework for conducting the Internal Capital Adequacy Assessment Process (ICAAP).
Other policies within the Operational Risk Management Policy Framework	
Outsourcing Policy	Guidelines, Procedures, Risk mitigation and MIS on outsourcing activities.
Information Security Policy	Outlines rules and guidelines related to the security of the information within the Bank and its networks.
Business Continuity Plan	Guidelines and procedures for ensuring business continuity in disaster situations.
Compliance Policy	Framework for management of compliance risk of the Bank
Anti Money Laundering (AML) Policy	Guidelines and procedures for ensuring anti money laundering of the Bank

Table 18 Risk Management Policies

Risk Appetite Framework (RAF)

The risk appetite statement is a key component of the risk management framework. It indicates desired forward-looking risk profile which facilitates the strategic policy process.

Risk appetite is the level of risks the Bank is willing to take for achieving its objectives. It reflects the key aspects of business and stakeholder expectations.

RAF of the Bank enhances value by aligning business operations and risks. It acts as a guide to plan business activities to provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Key elements articulated in RAF approved by the Board includes:

- Risks that we accept as a part of doing business, which are controlled through active risk management
- Risks that we incur as a part of doing business, are actively managed to remain within the acceptable appetite
- Risks which the Bank has zero risk tolerance

The Bank uses top down approach in setting risk appetite at corporate level using qualitative and quantitative parameters that minimise adverse impacts to values and financial position. Quantitative risk appetite at corporate level focuses mainly on capital adequacy, liquidity, profitability and other prudential requirements.

The qualitative statements mainly include risks for which the Bank has zero risk appetite. At business line level, risk appetite limits are by risk types namely credit, equity, interest rate, forex and operational.

Convergence of top down and bottom up approach is used at divisional and product line level to set more prudent risk appetite levels using limit structures, budgeted levels and Key Operational Risk Indicators (KORIs).

Risk Appetite Dashboard – Strategic Level

Component	Measure %	2020 – Actual	Against Risk Appetite
Profitability	ROE	20.67	✓
	ROA	1.24	✓
Capital adequacy	CET 1	12.03	✓
	Tier 1	13.65	✓
	Total Capital	16.45	✓
Liquidity	LCR (All)	307.22	✓
	SLAR	69.10	✓
	NSFR	169.00	✓
Leverage	Leverage	6.64	✓

Risk Levels

✓ Within risk appetite limit
✓ Within the maximum tolerance limit
✓ Below maximum tolerance limit

Table 19 Key Risk Appetite Metric

Profitability of the Bank has improved in year 2020 compared to year 2019. Key strategic level risk appetite indicators are within the risk appetite limits.

The Bank remained above the risk appetite limits set for the profitability, liquidity, and leverage. The capital adequacy ratio is within the regulatory minimum; however the Bank is desirous of maintaining higher level of capital as a buffer to cover pillar II risks and stress testing.

As a result of continuous exposure to both financial and non-financial risks driven by internal and external sources such as credit, market, liquidity, operational, compliance, reputation and strategic, it is imperative that the Bank promotes an integrated risk management framework to minimise the adverse impact on performance and the overall functions of the Bank.

Risk management framework is implemented in an integrated manner to cover a broad spectrum of emerging and existing risks with controls and governance established for each area as appropriate.

Credit risk

Credit Risk is the risk of potential financial loss arising from disruptions to cash flows and increase in collection cost due to inability or failure of a borrower or counterparty to meet its financial or contractual obligations to the Bank. It may arise from direct lending activities as well as from commitments and contingencies.

Credit risk to the Bank consists of counterparty default risk, concentration risk, settlement risk, and residual credit risk.

The maximum exposure to credit risk grew by 19.5% to Rs. 1,317.3 Bn. in 2020 which represents 96.6% of the Bank's total assets amidst the challenging economic environment that prevailed in the country mainly due to COVID-19 pandemic. Loans and advances, and debt and other instruments are the major sources of credit risk to the Bank.

Risk and Capital Management

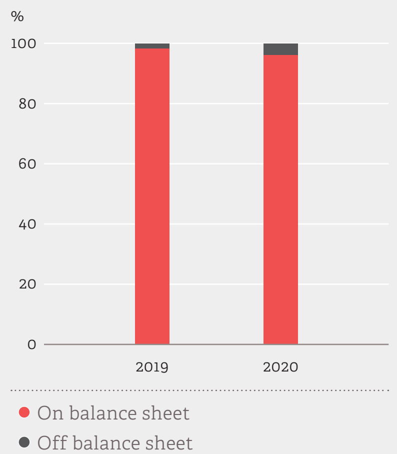
As at 31 December	2020 maximum exposure to credit risk Rs. '000	2019 maximum exposure to credit risk Rs. '000	Change %
Cash and cash equivalents	**6,491,963**	5,376,715	20.7
Balances with central banks	**–**	–	–
Placements with banks	**13,253,499**	12,364,469	7.2
Derivative financial instruments	**19,897**	11,622	71.2
Financial assets recognised through profit or loss			
– measured at fair value	**11,221,746**	11,459,882	-2.1
– designated at fair value	**–**	–	–
Financial assets at amortised cost			
– loans and advances	**516,795,160**	454,394,957	13.7
– debt and other instruments	**754,233,344**	615,634,321	22.5
Financial assets measured at fair value through other comprehensive income	**15,271,822**	3,478,811	339.0
Gross total	**1,317,287,431**	1,102,720,778	19.5

Table 20 Maximum exposure (on-balance sheet exposures)

Retail lending portfolio has given the highest contribution to the credit growth, and has increased by 24.3% (YoY) whereas, corporate lending portfolio has increased by 9.8% (YoY). Personal loan product reported the highest growth (41.2%) during the year, increasing the composition to 58.6% of the retail lending portfolio.

On and off-balance sheet exposure

Graph 22

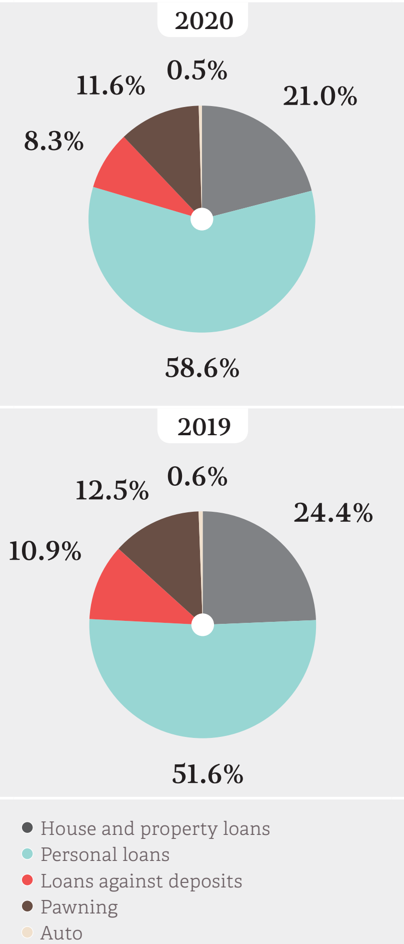


Loans and advances – portfolio mix

Graph 23

Retail loan portfolio

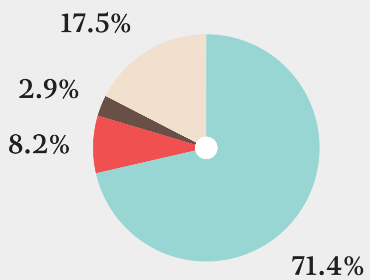
Graph 24



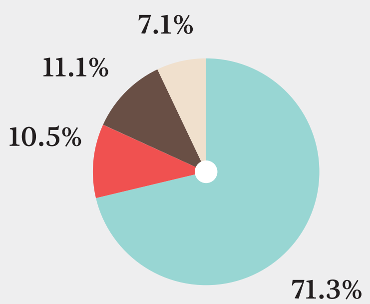
Corporate loan portfolio

Graph 25

2020



2019



- Corporate loans-SOEs and GOSL
- Loans to banks
- Corporate loans-other
- Other Instruments

Being a State-owned licensed specialised bank, NSB significantly contributed in Covid-hit nation building initiatives of the Government. The Bank granted debt moratorium, interest rate concessions and other reliefs to contribute in renaissance facilities offered to individuals and business customers affected by COVID-19.

Loan growth in 2020 was mainly driven by retail lending for consumption purposes. Even though there was a increased default risk during the year, the full impact on asset quality was reduced by the loan moratorium that is in effect until March 2021 and the flexibility granted by the CBSL and CA Sri Lanka towards classification and impairment recognition for regulatory and financial reporting purposes.

To support proactive credit risk management, the impact of the potential for NPLs to increase after expiration of the debt moratorium, impairment provision using the ECL model and their impact on profitability was assessed under different scenarios.

Credit risk management →

Counterparty risk

Counterparty risk arises from counterparties not fulfilling their financial obligations under agreed terms and conditions is the most significant element of credit risk to the Bank.

Management of counterparty risk is mainly through credit risk management framework comprising credit risk management tools and techniques formulated based on the directions and guidelines provided by the regulator and Basel guidelines. Customer Due Diligence (CDD), credit limit framework risk appetite and tolerance framework, rating models, post disbursement loan monitoring and LRM facilitates the Bank in managing counterparty risk exposures.

The Bank's gross NPL ratio of 2.8% as at 31 December 2020 is below the industry gross NPL ratio of 4.9%. According to SLFRS 9 classification, for the year 2020, the credit impaired (Stage 3) loans stood at Rs. 16.9 Bn (Rs. 9.1 Bn. in 2019) which is 3.2% (2.0% in 2019) of the gross loans and advances of the Bank. There are no impaired (Stage 3) debt and other instruments reported for the year.

Credit risk review →

Risk component	Description	Monitoring/Management tools	Exposure	Impact*
Counterparty risk	Possible impact due to failure of counterparties to meet contractual obligations to the Bank according to the agreed terms.	• Limit Monitoring • Monitoring of early warning indicators, trends in Non-Performing Loans (NPLs) • Loan Review Mechanism (LRM) • Credit rating/scoring, stress testing	High	Increase in impact
Concentration risk	Uneven distribution of counterparties in credit to an industry sector or geographical region.	• Herfindahl – Hirschman Index (HHI) • Limit Monitoring • Stress testing	Moderate	No change
Settlement risk	Possible impact due to failure of delivering on the terms of a contract at the time of settlement.	• Limit monitoring • Monitoring of early warning indicators, trends in NPLs	Moderate	No change
Residual risk	Possible impact from any remaining risks after all other risks have been eliminated, hedged or otherwise accounted.	• Collateralisation • Monitoring of valuation/revaluation • Monitoring of LTV ratios	Moderate	No change

* YoY change in impact on earnings and capital

Increase in impact　No change　Decrease in impact

Table 21 Credit risk review

Risk and Capital Management

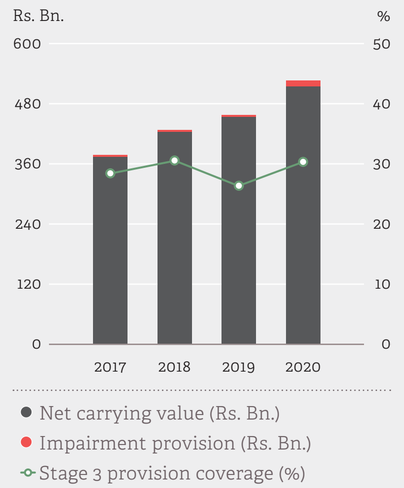
The increasing trend experienced in loans and advances to other customers getting classified as impaired resulted in a cumulative impairment provision of Rs. 9.0 Bn. (Rs. 4.3 Bn. in 2019) and an impairment charge of Rs. 4.9 Bn. (Rs. 0.6 Bn. in 2019) for the year under review.

The improved credit assessments, loan approvals, effective credit risk management framework, post-sanction monitoring and recovery efforts will assist the Bank to bring down NPL levels and contribute to maintain the quality of the loan book.

LRM is used as an effective tool to mitigate operational risk in credit by prompt identification and rectification of gaps in credit granting and documentation process throughout the Bank. This ensures quality assurance of the credit process and the credit quality. Gaps identified are communicated to CC and BIRMC/Board for early rectification.

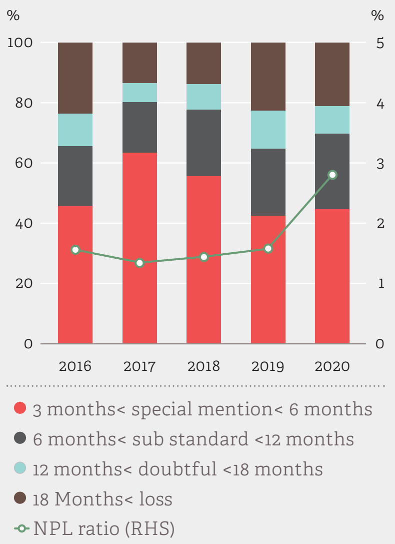
Loans and advances vs provision for impairment

Graph 26



NPL ratio and age analysis of NPL

Graph 27



Cross border counterparties expose the Bank to cross border risk. Defaults in honouring contractual obligations as a result of actions taken by foreign governments, principle changes in policies and regulations of respective countries relating to convertibility and transferability of foreign currency, give rise to foreign currency risk exposures. Cross border credit exposure of the Bank is limited to exposure to Maldives which represents 0.1% of total assets.

Concentration risk

Concentration risk is the risk of an adverse development in a specific single counterparty, industry sector, product or geography leading to a disproportionate deterioration in the risk profile of the Bank's credit exposures to that counterparty, industry sector, product or geography.

Concentration risk is predominantly managed through diversification of the credit portfolio across sectors, counterparties and geographies. The Bank uses techniques such as HHI and stress testing in monitoring concentration risk levels.

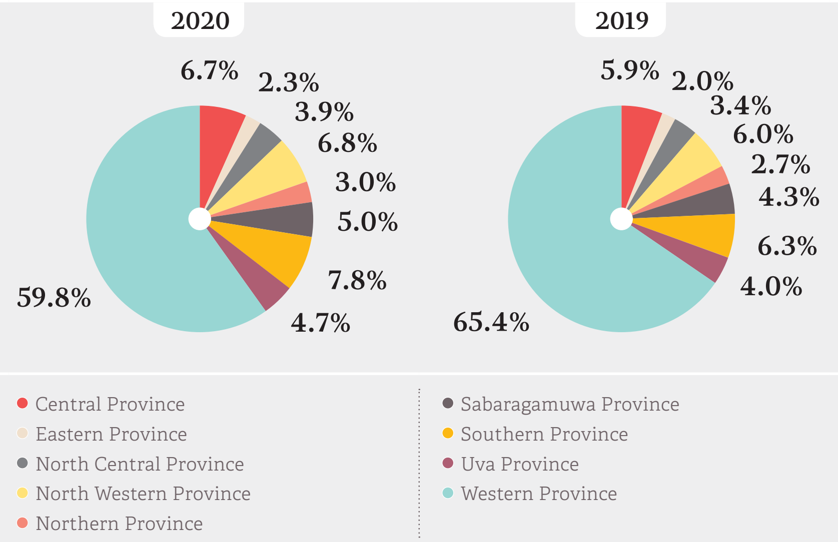
Risk Appetite Statement defines a moderate risk appetite towards sector concentration considering the business model and the level of contribution made to achieve the development goals of the Government.

The Bank monitors credit exposures against counterparty limits and ensure that the name concentration are within the risk appetite.

High geographical concentration to the Western Province is due to all large loans being booked at the head office Credit Division.

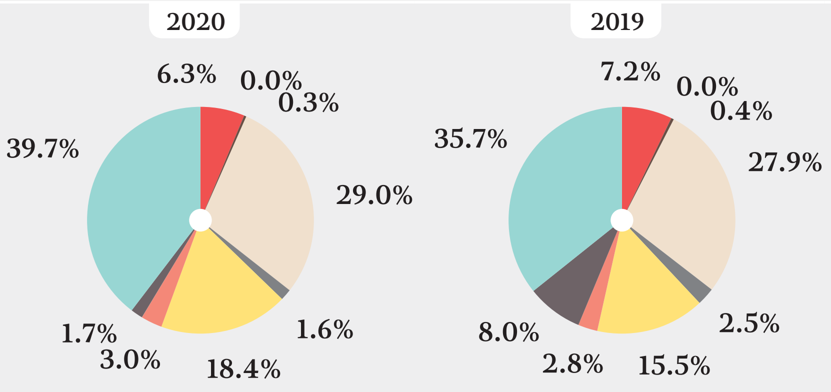
Geographical concentration

Graph 28



Sector concentration

Graph 29



- Agriculture and fishing
- Tourism
- Transport
- Construction/housing
- Financial and business services
- Infrastructure
- Power and energy
- Education
- Personal/pawning/other

With the increase in composition in personal loans backed by personal guarantees, there is an increasing trend in residual risk in credit. However, in year 2020, 25.5% of the Bank's credit portfolio is backed by Government guarantee and 14.3% is backed by immovable property mortgages.

Among the immovable property mortgage loans, 78.3% of the loans were backed by immovable property with less than 50% of LTV ratio. The immovable Property mortgages accepted as collateral are revalued based on the Bank's policy on Valuation and Revaluation of Immovable Property developed in compliance with the CBSL Directions.

Settlement risk

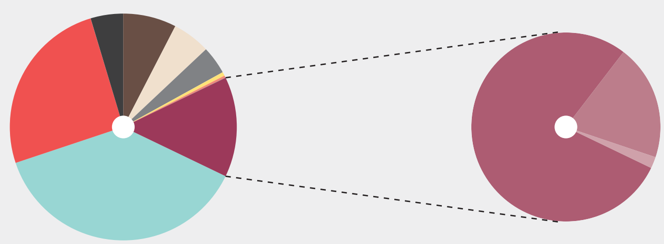
Settlement risk is arising from failure of the counterparty to deliver counter value; usually the underlying asset or cash value of the contract, as per the terms of the contract at the time of settlement. Settlement risk is closely associated with default risk along with any timing difference in settlement. Settlement risk in credit is managed through limit framework of the Bank.

Residual credit risk

Residual credit risk is identified as remaining amount of credit risk after considering credit risk mitigants. Risk governance framework embodies strong control mechanisms in terms of processes and procedures and Credit Risk Mitigation (CRM) techniques defined at policy level such as collateralisation and LTV ratios as well as recovery procedures to maintain residual credit risk is within the appetite level of the Bank.

Collateral wise loan portfolio and LTV distribution of loans backed by immovable property

Graph 30



- Personal Guarantee – 37.7%
- Treasury Guarantee – 25.5%
- Unsecured – 4.7%
- Gold – 7.6%
- Cash – 5.4%
- Other – 4.0%
- Lease Receivables – 0.5%
- Movable Property – 0.3%
- Corporate Guarantee – 0.0%
- Immovable property – 14.3%
  - LTV less than 50% – 78.3%
  - LTV between 50%-75% – 19.8%
  - LTV more than 75% – 1.9%

Market risk

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. CBSL strengthened the requirement and the importance of Market Risk management function with the issuance of Direction No. 06 of 2019 – "Market Conduct and Practices for Treasury Operations". The Bank's exposure to Market Risk arises predominantly from the following sources:

Trading book

Traded Risk is the potential for loss resulting from trading activities undertaken by the Bank in financial markets. Bank's trading book comprises of investments in Government Securities, equities and foreign currency open positions. The Bank is exposed to market risk due to holding positions in trading book. At the end of year 2020, the Bank's trading book amounted to Rs. 11.2 Bn., which accounts for 0.8% of the total assets of the Bank.

- **Interest rate risk:** arising from changes in yield curves and repricing spreads.
- **Equity price risk:** arising from changes in the prices of equity investments.
- **Foreign exchange rate risk:** arising from changes in currency exchange rates.
- **Commodity risk:** The Bank has a negligible exposure to commodity price risk which is limited to the extent of the fluctuations in gold price on the pawning portfolio.

Non-trading book

The ALM Desk ensures that the Bank holds sufficient liquid assets buffer, much of which is held in high-quality marketable Government Securities. At the end of year 2020, total investments in Government Securities (including SLDB) amounted to Rs. 740.9 Bn., that accounts for 54.3% of the total assets of the Bank.

The Bank has exposures in foreign currency loans and related income streams denominated in currencies other than LKR. To the extent that these are not hedged, the Bank is subject to Structural Foreign Exchange Risk which is reflected in reserves.

Market risk review

Risk component	Description	Monitoring/Management tools	Exposure	Impact*
Interest rate risk				
Re-pricing risk	The risk arises from timing differences between rate changes or cash flows from rate sensitive on and off-balance sheet assets and liabilities	• Monitoring Re-pricing gap limits • Limits on Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)	High	Decrease in impact
Yield curve risk	Risk of short-term rates changing by more or less than the change in long-term rates	• Sensitivity/Stress testing with rate shocks	High	Decrease in impact
Basis risk	Risk from unequal movements in rate indices on RSAs and RSLs with the same maturity or re-pricing dates	• Sensitivity of rate shocks on RSAs and RSLs	High	Decrease in impact
FX risk	Possible impact on earnings and capital arising from adverse changes in exchange rates arising out of maturity mismatches in Foreign Currency (FCY) positions	• Limit monitoring, • FX VaR • Stress testing	Medium	Increase in impact
Equity price risk	Possible losses arising from changes in equity market prices	• Limit monitoring • Equity VaR • Mark to market FVPL and FVOCI portfolio on daily basis.	Low	No change
Commodity price risk	Possible negative impact on earnings due to changes in prices of commodities (Gold)	• Indirect impact on value of collateral against pawning advances	Low	Decrease in impact

* YoY change in impact on earnings and capital

Increase in impact No change Decrease in impact

Table 22 Market risk review

As at 31 December 2020	Amount as per financial statement (Rs. '000)	Exposure to trading risk (Rs. '000)	Exposure to non-trading risk (Rs. '000)	Market risk type
Financial assets				
Cash and cash equivalents	6,491,963	–	6,491,963	IRR, FX
Placements with banks	13,253,499	–	13,253,499	IRR,FX
Derivative financial instruments	19,897	–	19,897	IRR
Financial assets measured at fair value	11,221,746	11,221,746	–	IRR,Equity
Financial assets at amortised cost – Loans and receivables	516,795,160	–	516,795,160	IRR,FX
Financial assets at amortised cost – Debt and other instruments	754,233,344	–	754,233,344	IRR,FX
Financial assets measured at fair value through OCI	15,271,822	–	15,271,822	IRR,Equity
Total	1,317,287,431	11,221,746	1,306,065,685	
Financial liabilities				
Due to banks	12,862,337	–	12,862,337	IRR, FX
Financial liabilities at amortised cost – Due to depositors	1,237,123,791	–	1,237,123,791	IRR,FX
Financial liabilities at amortised cost – Due to other borrowers	8,159,591	–	8,159,591	IRR,FX
Lease liability	1,274,713	–	1,274,713	IRR
Debt securities issued	31,773,753	–	31,773,753	IRR
Total	1,291,194,186	–	1,291,194,186	

Table 23 Mapping of market risk items to the balance sheet

Spread of coronavirus pandemic within the country increased the instability and uncertainty of financial and capital market increasing the importance of managing market and liquidity risk of the Bank in a challenging economic environment which increases the systemic risk.

Due to economic uncertainties, local and foreign sell-offs took place during March 2020. The equity market was closed for nearly two months due to country's lockdown, resultantly demand increased for Government securities.

However, due to Government intervention to stimulate the economic activities, market liquidity level increased during the year which has led to reduce the economy interest rates. Reduction in interest rates backed by conventional and unconventional monetary policy measures resulted a decline in bond yields. With the reduced interest rates and yields, investor funds shifted to equity market during the latter part of the year soaring CSE main index above 6,700 level, an upside gain of 59% from the lowest level of 4,200 recorded in May 2020.

Moreover, due to declined export earnings, reduced worker remittance and earnings from tourism and debt pay-offs, country's foreign exchange reserves declined and along with the increased volatility, Sri Lankan Rupee depreciated by 2.8% (CBSL mid-rate) during the year.

During 2020, world gold prices increased almost by 28% (Source: CBSL) as investors shifted from risky assets to safe-heaven investments due to uncertainties. Monitoring the price trends, the Bank revised the advance limits on pawning several times during the year.

Prudent risk limits, adherence to internal policies and procedures of the Bank, market best practices and continuous monitoring and reporting of market and liquidity risks resulted to minimise the possible operational and capital losses from increased systemic risks. The Bank was well managed to reap benefits from both equity and Government Securities trading during the period under review adhering to internal and regulatory requirements.

Market risk management

The Treasury Front Office (TFO), acting as the First Line of Defence, is responsible for the effective management of both traded and non-traded market risks of the Bank within the scope of its direct responsibilities set by the Board. The Treasury Middle Office (TMO) is the second line control function that performs independent monitoring of the traded risk management practices of the first line of defence.

Risk and Capital Management

Under the Integrated Risk Management Framework, the Market Risk Management Framework brings together all risk types exhibiting risk features common to Traded Risk and Non-Traded risk.

Equity price risk

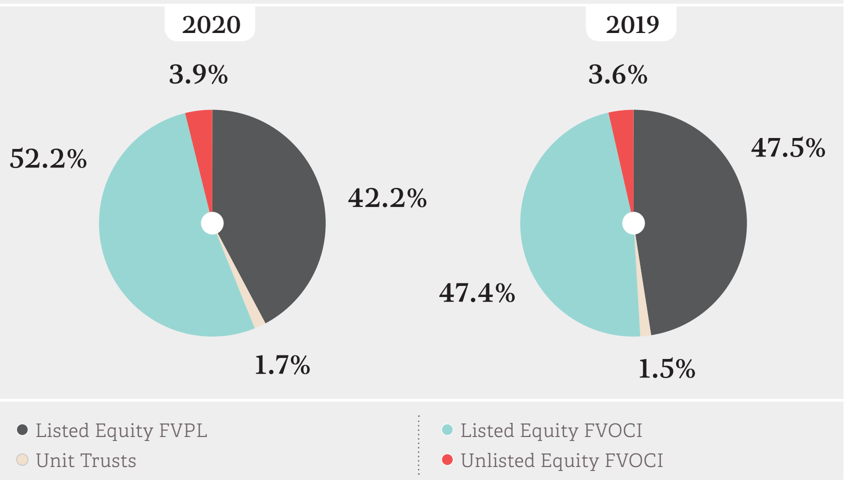
Equity price risk refers to the risk of depreciating the value of investments in equity portfolio due to stock market dynamics exposing the Bank to potential variation in income and reserves. The Bank is exposed to equity price risk from its investments in listed equity instruments both ordinary shares and unit trusts.

The Bank's listed equity portfolio comprises both FVPL and FVOCI portfolios and the extent of investments in equities is wedged by Risk Limits Framework and Investment Policy Statement (IPS).

value of equity FVPL portfolio fell by Rs. 106.6 Mn. to Rs. 1,675.7 Mn. at the end of 2020. The Bank secured Rs. 445.6 Mn. net gain from trading of equity securities for FY 2020.

Equity portfolio composition (Book value of investments)

Graph 31



Portfolio type	2020 Book value Rs. '000	2020 Market value Rs. '000	2019 Book value Rs. '000	2019 Market value Rs. '000	Unrealised gain/(loss) Rs. '000
FVPL portfolio	**2,524,999**	**1,675,748**	3,046,421	1,782,337	414,833
FVOCI portfolio	**3,006,094**	**2,514,374**	2,940,930	3,208,101	(758,891)
Total	**5,531,093**	**4,190,122**	5,987,351	4,990,438	(344,058)

Table 24 Listed Equity portfolio position

The main index of the CSE closed for the year 2020 with a 10.5% gain which was the highest annual return recorded since 2014. 2020 was a year filled with uncertainties due to the global outbreak of COVID-19 pandemic where market indices hit bottoms in May when CSE opened after the closure for nearly two months due to the first wave of the pandemic in the island and had undergone few market cycles during the year. Benchmark ASPI climbed to nearly 4-years high to 6,774 at the closure of the year after reaching its lowest point of 4,215 in more than a decade.

However, S&PSL 20 index closed the year at 2,638 with a negative 10.1% YTD return in 2020. Regardless of the appreciation of the main index, market

Foreign exchange risk

FX risk is the possible impact on earnings and capital resulting from unanticipated and unfavourable fluctuations in exchange rates. During 2020, USD/LKR average spot rate fluctuated in the range of Rs. 181.15 – Rs. 194.87 (Source: Bloomberg). The rupee depreciation was 2.26% for the year. During the year 2020, CBSL took several measures to improve the foreign currency liquidity from external sources. Further, CBSL continued to purchase foreign exchange from the domestic foreign exchange market to build-up reserves.

	<1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years	Total
USD	(12,849,451)	15,573,904	1,794,424	(23,940,000)	16,831,931	4,234,200	898,800	2,543,808
EUR	2,267,437	1,471,758	2,700,484	682,459	–	–	–	7,122,138
GBP	(560,876)	1,624,867	1,137,656	(1,830,680)	139,579	–	–	510,546
SGD	8,764	–	–	–	–	–	–	8,764
AUD	(563,533)	978,387	2,256,003	(2,178,871)	87,011	–	–	578,997
JPY	244,372	–	–	–	–	–	–	244,372
CHF	3,431	–	–	–	–	–	–	3,431
CAD	26,078	–	–	–	–	–	–	26,078
AED	295	–	–	–	–	–	–	295

Table 25 Currency-wise maturity gaps for FX operations

FX risk is associated with the un-hedged positions in all the foreign currencies. Bank, under Standardised Measurement Approach (SMA) allocates capital for foreign currency risk considering the Net Foreign Currency Exposure (NFCE). Net Open Position (NOP) is monitored on a daily basis against internal alert limits. At the end of the year 2020, Net FC exposure of the Bank was USD 11.8 Mn. which is 5.2% of the total capital of the Bank.

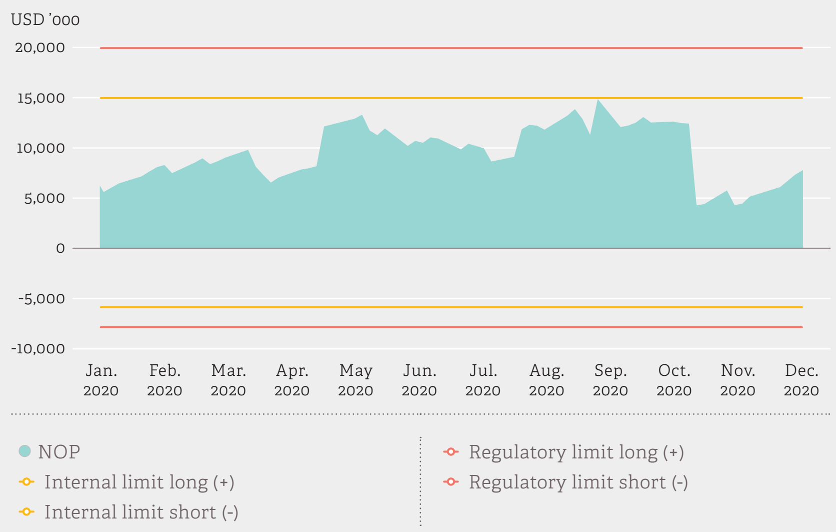
Structural foreign exchange exposures

Currency	2020 '000	2019 '000
USD	**1,672**	906
GBP	**567**	511
JPY	**244**	-1,935
SGD	**9**	3
EUR	**7,191**	9,264

Table 26 Structural foreign exchange exposures

Daily NOP against internal and regulatory limit

Graph 32

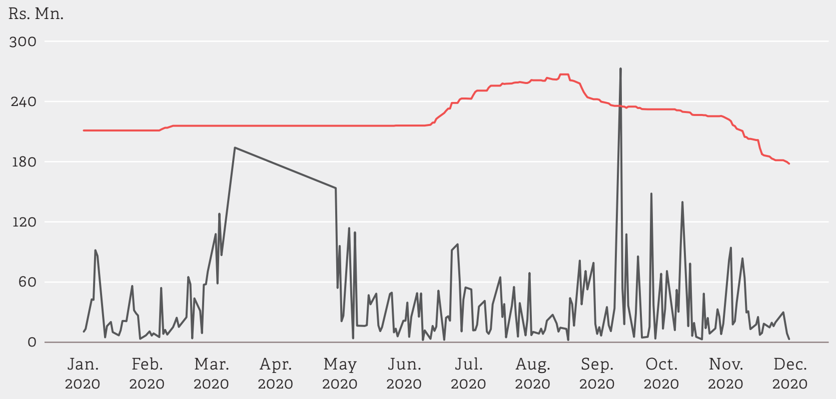


The Bank measures market risk changes using VaR (Value-at-risk) for equity trading book and FC open position. VaR remained within the RTL of the Bank.

Risk and Capital Management

Equity VaR

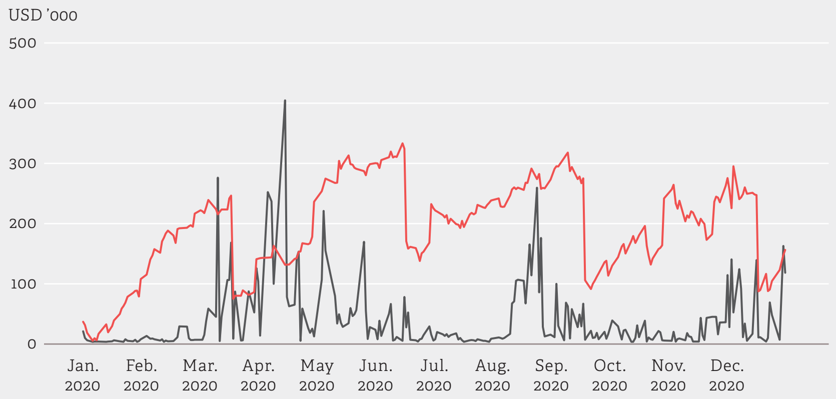
Graph 33



CSE closed from 20 March 2020 to 10 May 2020 due to country lockdown

FX VaR

Graph 34



Interest rate risk

Interest Rate Risk (IRR) in trading book arises from the Bank's interest earning investments held in FVPL portfolio. The Bank's rate sensitive FVPL investment was 1.5% of its total investments in Government Securities as at the end of 2020 which comprised of both Treasury Bills and Bonds. Interest rate risk in Government Securities FVPL portfolio is assessed through unrealised gains/losses and capital requirement calculated based on duration of the securities held in the trading book.

Interest Rate Risk in Banking Book (IRRBB)

	<1 month Rs. Mn.	1-3 months Rs. Mn.	3-6 months Rs. Mn.	6-12 months Rs. Mn.	1-3 years Rs. Mn.	3-5 years Rs. Mn.	>5 years Rs. Mn.
RSA excluding FVPL portfolio	39,454	66,373	43,322	133,030	322,887	308,349	385,416
RSL	224,602	379,188	230,612	403,718	34,945	11,855	5,000
Period GAP (RSA-RSL)	(185,148)	(312,815)	(187,290)	(270,688)	287,943	296,495	380,416
Cumulative Gap	(185,148)	(497,964)	(685,253)	(955,941)	(667,998)	(371,504)	8,912
Actual gap as % of RSL – 2020 (%)	-82.43	-82.50	-81.21	-67.05	823.99	2,501.06	
Actual gap as % of RSL – 2019 (%)	-87.40	-90.68	-76.16	-73.56	562.44	2,289.59	

Table 27 Interest rate sensitivity gap – Banking book

IRR is the possibility that an extreme movement in interest rates will affect the underlying value of the rate sensitive assets, liabilities and off-balance sheet exposures through which the Bank gets exposed to fluctuations in Net Interest Income (NII). Bank's exposure to IRR can be identified in the form of repricing risk, yield curve risk and basis risk.

Adverse interest rate movements may also impact on the Bank's capital and interest through changes in present value and the timing of future cash flows of banking book positions. This form of IRR arises from differences in the term structure of non-tradable assets and liabilities and the interest rate indices based on which the instruments are priced. IRRBB, if not managed properly, can pose a significant adverse impact on capital base and future earnings of the Bank.

Large negative mismatches in less than 1-year maturity buckets resulted in positive impacts on Bank's NII during the year as the interest rates were ever decreasing during 2020 due to pandemic conditions.

The Management of IRR is crucial for the Bank since approximately 95% of the Bank's assets and liabilities are interest rate sensitive where Bank's NII or NIM is subject to interest rate volatilities. Bank's IRR management initiatives therefore aim to minimise the mismatches in the maturities (fixed rated assets or liabilities) or to match repricing dates (floating rated assets or liabilities). Bank measures IRR both in the earnings perspective and economic value perspectives.

The Bank assesses IRR primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities which are repriced within the defined maturity buckets.

Derivative financial instruments

The Bank has an interest rate swap agreement which is recorded at fair value and carried as an asset at the end of the year 2020. The notional amount of the swap agreement was Rs. 2 Bn. The base interest rate of the agreement is benchmarked to six month AWPLR. At the end of the year 2020, the market value of derivatives was Rs. 19.9 Mn. and changes in the fair value of the derivatives are included in "net trading income".

Liquidity and funding risk

Liquidity and Funding Risk is the risk that the Bank may not have sufficient stable or diverse sources of funding to meet on or off-balance sheet obligations as they fall due without incurring unacceptable losses. The Bank's liquidity risk management framework requires to ensure that the Bank operates within predefined liquidity limits and remains in compliance with the Bank liquidity policies, regulatory requirements and best practices.

Liquidity risk review

Excessive market liquidity prevailed throughout the year due to the policy measures taken by the CBSL such as reducing SRR requirement and reducing SDFR and SLFR in order to enhance liquidity in the financial system and to support the recovery of economic activities through active lending. Further, regulatory liquidity requirements also lowered (i.e. LCR, NSFR) to increase the liquid assets of the banking system. Hence, the Bank's liquidity indicators remained favourable during the period.

The main objective of the liquidity and funding risk management is to access and ensure availability of funds required to meet obligations at correct time at correct cost under both normal and stressed scenarios.

Bank's regulatory liquidity ratios at the end of year 2020 are as follow:

	2020 %	2019 %	Regulatory minimum %	Regulatory minimum (after COVID-19 relief measures) %
SLAR – DBU	**69**	60	20	20
LCR – Rupee	**311**	278	100	90
LCR – All currency	**307**	277	100	90
NSFR	**169**	175	100	90

Table 28 Regulatory liquidity ratios

Liquidity risk management →

Stock approach

All the liquidity ratios under stock approach excluding the commitments to loans ratio improved during the year under review compared to the previous year mainly due to slower credit growth. Liquid assets of the Bank improved mainly on account of increased investments in Government Securities with increased customer deposits.

Bank monitors following liquidity ratios under stock approach to manage the funding and liquidity risks.

Ratios under stock approach	2020 %	2019 %
Net loans to total assets	**37.9**	39.3
Loans to customer deposits	**42.5**	46.7
Liquid assets to short-term liabilities	**64.5**	53.9
Purchased funds to total assets	**20.6**	22.0
(large liabilities – temporary investments) to (earning assets – temporary investments)	**11.2**	13.8
Commitments to total loans ratio	**4.1**	1.7

Table 29 Ratios under stock approach

Flow approach:

Under the flow approach, Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gaps are periodically, monitored against limits and used for sensitivity analysis and stress testing.

High negative liquidity gap can be observed in less than one year maturity bucket due to categorisation of savings deposits and term deposits in less than one year. However, adverse impact on liquidity is low considering the tendency to rollover based on historical behaviour.

At the end of year 2020, negative gaps that prevailed in less than 12 months maturity buckets declined reflecting improved liquidity due to increased short-term investments. Positive gaps also increased compared to the last year.

Monitoring of maturity gap analysis of assets and liabilities enables foreseeing adverse liquidity levels. The Bank was able to manage funding requirements during the year utilising the Government Securities portfolio with minimum reliance on market repo borrowings.

Funding diversification by products

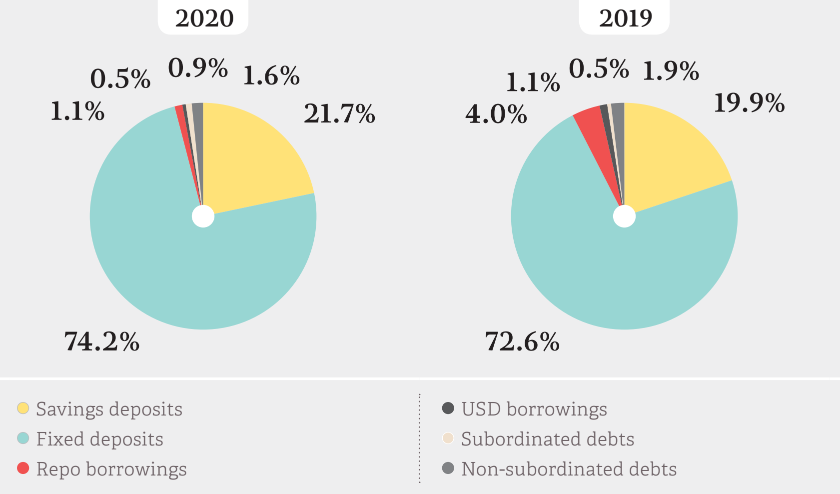
Bank's deposit base reached Rs. 1.2 Tn. with a notable growth of 21.7% at the end of year 2020 despite COVID-19 crisis. This has resulted due to the customer confidence as a safer bank for customer deposits owing to 100% government guarantee explicitly provided on the Bank's deposits.

	0-3 months (Rs. Mn.)	3-12 months (Rs. Mn.)	1-3 years (Rs. Mn.)	3-5 years (Rs. Mn.)	>5 years (Rs. Mn.)	Total (Rs. Mn.)
Assets with contractual maturity	111,629	187,556	330,285	315,863	418,475	1,363,308
Liabilities with contractual maturity	608,578	639,368	35,490	12,202	68,170	1,363,308
Maturity Gap	(496,949)	(451,812)	294,795	303,661	350,305	(0)
Cumulative Gap	(496,949)	(948,761)	(653,966)	(350,305)	(0)	(0)
Actual Gap as a % of RSL						
– 2020 (%)	-82	-71	831	2,489	514	0
– 2019 (%)	-87	-91	-76	-74	562	

Table 30 Maturity profile of assets and liabilities

Funding diversification by product

Graph 35



The Bank has access to a wider spectrum of retail deposits and institutional deposits through its branch network and counts on that as the primary source of stable funds. The Bank has also low-cost foreign currency borrowing made in 2019.

Access to retail deposits (i.e. Savings and FDs) through island wide network of branches enables reducing concentration risk in funding.

Liquidity and funding risks are managed by ALM Unit of Treasury Division using policies and procedures approved by the Board.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes reputational risk and strategic risk. Operational risk cannot be fully diversified or eliminated due to the imperfection of people, processes and systems. However, it can be managed to be within the level of risk tolerance.

The Bank is exposed to a broad range of operational risks through its daily operations and is aware of the emerging operational risk concerns.

The role of operational risk management is reviewed on a yearly basis considering the impact from existing and emerging trends.

Operational risk review

Risk Component	Description	Monitoring/Management Tools	Exposure	Impact*
Theft and fraud risk	Fraudulent activities by internal or external parties	• Fraud risk management and whistle blowing process • Internal controls • Key Operational Risk Indicators (KORIs) monitoring • Loss event monitoring • Risk Control Self Assessment (RCSA)	High	Increase in impact
Cyber risk and data compromise	Cybercrimes/data breaches and system outages	• Internal controls • Information security management system • KORIs monitoring • Incident reporting	High	No change
Business continuity risk	Losses arising from disruption of business or system failures	• KORIs monitoring • Business Continuity Management System (BCMS) implementation	High	Increase in impact
Compliance/ regulatory risk	Failure in meeting regulatory requirements	• Compliance programme and examinations • KORIs monitoring • Compliance risk scorecard	High	No change
Legal risk	Inadequate/failure to comply with legal requirements	• Legal clearance on all contractual obligations • KORIs monitoring	Moderate	No change

* YoY change in impact on earnings and capital

Increase in impact | No change | Decrease in impact

Table 31 Operational risk review

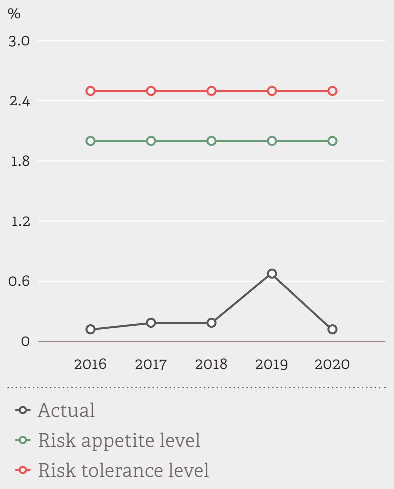
Risk and Capital Management

Operational risk is reviewed in terms of material risks to the Bank. Bank has a very low tolerance for operational risks in critical business functions. During the year, business continuity risk components emerged and made a higher impact to operations.

Operational losses for the financial year 2020 was 0.13% of the average audited gross income for the last three years, which is far below the risk appetite and risk tolerance levels reflecting the effectiveness of the internal control structures, processes and procedures in place to manage operational risk.

Actual operational losses against risk appetite and tolerance limit

Graph 36



The trend line demonstrates the Bank's consistency in maintaining losses at minimal levels over the last five-year period.

COVID-19 pandemic has caused a seismic change to the way business is conducted and its effects will last for a considerable period of time.

Pandemic severely impacted the Bank's operations as a financial service provider due to the higher involvement of human resource and the level of contact with the public at large in its day today service delivery. Yet, the Bank provided uninterrupted service to customers with business continuity arrangements and contingency plans along with proactive decisions.

Aspects of cyber resilience and data security were prominently considered to safeguard sensitive information in enabling remote working arrangements and to manage the demand for e-commerce transactions and internet banking due to nation-wide movement restrictions.

All precautions were taken to safeguard employees and customers adhering to guidelines issued by health authorities.

Operational risk management →

The Bank takes a comprehensive approach to manage operational risk embedded in all operational areas based on the Board approved operational risk framework.

Branches and staff attached to divisions are the primary owners of operational risk. They are provided with adequate training which assists in identifying inherent risks in their area of responsibility.

System controls, access controls, segregation of duties, clear lines of authority and responsibility, dual checks for authorisation and verification of transactions, physical controls over assets, record keeping, reconciliations, audit trails and audit logs are a part of the internal control structure, which is the base for operational risk management.

ORMU in RMD identifies the risks with the intention of implementing corrective actions to address process and control deficiencies.

The Bank uses different tools and techniques to manage and minimise operational risk exposures.

Loss event data collection and analysis

Loss data collection is a key component of sound operational risk management and a criteria to reach advanced approaches for capital computation.

The Bank's loss event data collection process captures both internal and external loss event data.

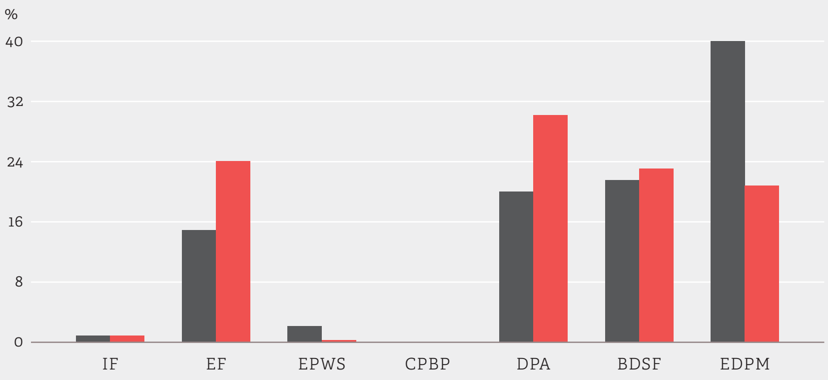
Bank has a documented procedure for identification and collection of internal loss data from all geographic locations to facilitate timely regulatory reporting and recognition. Further, the Bank's external loss event data base captures operational loss events published by similar institutions.

Collected data is classified into Basel level II loss event categories and used to identify the nature, root causes and the probability of occurrence. Process improvements and risk mitigation actions are recommended based on the analysis of loss event patterns.

From the internal loss data collected during the year 2020, the highest frequency and severity was reported from physical asset damages and external frauds respectively. The frequency and the severity of events were managed within the tolerance limits.

Frequency of loss event data

Graph 37

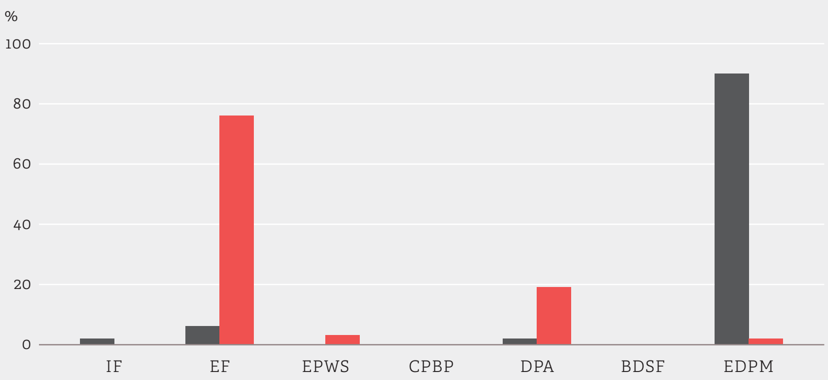


● 2019 ● 2020

IF – Internal Frauds
EF – External Frauds
EPWS – Employment Practices and Workplace Safety
CPBP – Client Product and Business Practices
DPA – Damage to Physical Assets
BDSF – Business Disruption and System Failures
EDPM – Execution, Delivery and Process Management

Severity of loss event data

Graph 38



● 2019 ● 2020

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Key operational risk indicators monitoring

KORIs are used to enhance the risk monitoring and risk reporting as those demonstrate the changes in risk factors in terms of frequency and impact.

KORIs measure the potential risk related to a specific action and act as an early-warning system to alert the Bank's financial, operational, reputational, compliance or strategic issues.

The Bank's KORI dashboard covers key business operations and support services to identify and assess operational risk profile in a risk matrix covering audit issue management, business continuity management, information security management, product quality, process quality and compliance. KORIs are defined under each area to assess the risk based on predefined threshold limits. These threshold limits are revised annually or more frequently considering the changes in operational environment.

Risk Control Self-Assessment (RCSA)

RCSA forms an integral element of the overall operational risk framework, as it provides an opportunity to the Bank to integrate and coordinate its risk identification and risk management efforts to improve understanding and controls. Underlying assumption in RCSA is that, business process owners as First Line of Defence are in a best position to understand their own risks.

Key findings of RCSA help the Bank to identify and devise action for potential gaps in risk management. RCSA is conducted by RMD in coordination with process owners in branch network and key business units to evaluate exposures according to the predefined operational risk parameters.

Customer complaints management

Bank has established a customer complaint handling process that ensures all grievances are recorded and responded within a specific time period.

Customer complaints can be considered as a source of identifying operational weaknesses and customer's perception on Bank's operations.

ORMU periodically analyses customer complaints and findings are reported to ORMC to take further risk mitigation actions.

Information security

Technology advancement within the financial services systems has changed the Bank's business model to a greater extent and therefore the Bank enforces the governance in information security management to provide a safer banking service to the customers in terms of accuracy, control, integrity and confidentiality of the information from the ever emerging vulnerabilities in Information Communication Technology.

Internally, the Bank has put in place a Board approved Information Security Governance Framework to protect the Bank's critical information assets.

Information Security Division (ISD) is responsible for implementing Information Security Risk Management Framework. ISD carries out independent risk assessments on information systems with the assistance of external expertise service providers and assessment results are used to recommend risk treatments or risk mitigants.

The Bank has continuously taken information security initiatives to improve resilience towards evolving cyber threats. During the year 2020, following initiatives and undertakings have been taken to minimise information security vulnerabilities and enhance security posture:

i. **PCIDSS (Payment Card Industry-Data Security Standard)**

   PCIDSS is an information security standard for organisations that handle branded credit/debit cards from the major card schemes.

   It is one of the most accepted international standards for payment card security and is based on specific technical and operational controls for card operations and related information systems. Presently the Bank provides Mastercard and Visa branded debit card for customers and PCI DSS assures the safety of card holders' data. The Bank remains the only state bank to achieve PCI DSS compliance and the compliance was achieved in 2019. For 2020, the Bank was recertified with PCIDSS.

ii. **Security Operations Centre (SOC)**

   The Bank implemented a 24x7x365 operated SOC under the ISD in 2020 with the support of a competent third party. Incident response capabilities are further strengthened to meet international standards. As for the preparedness to achieve requirements in CBSL consultation paper on Technology Risk Resilience, the Bank achieved proposed requirements for 2020. This enhanced the Information Security Management System and will continue enhancing and maintenance of implemented controls through regular Management Committee reviews and technical reviews.

iii. **Data Leakages Prevention (DLP)**

   ISD with the support of IT division implemented the DLP and data classification solution during the year 2020 to protect and secure data and comply with regulations.

Business Continuity Management System

Business Continuity Management (BCM) ensures the continuous service delivery to customers and stakeholders without interruptions. It has a paramount importance in an IT driven banking environment.

Bank has in place a Business Continuity Plan (BCP) governance structure, policy documents, processes and systems approved by the Board to ensure business continues with minimum interruptions to business activities from natural, man-made or IT driven disasters.

BCP unit is assigned with the responsibilities for effective implementation, testing and monitoring of the BCP policy framework and to manage the disaster recovery site of the Bank.

Risk transfer →

Outsourcing is used as an effective cost-saving and a risk transfer strategy. Bank's outsourcing operations are conducted in accordance with the Board approved Outsourcing Policy and other regulatory requirements.

The risk arising from outsourcing of business operations are managed by the Outsourcing Monitoring Unit of Administration Division to ensure the compliance with the guidelines issued by the CBSL.

Bank conducts comprehensive due diligence exercises to ensure the service providers' capability to perform the activities outsourced. ORMC monitors the effectiveness of the outsourcing function and risk management practices conducted by the Administration Division.

Insurance plays a key role as an operational risk mitigation technique to transfer key insurable risk to an insurance service provider. The adequacy of the insurance policies is continuously reviewed considering the existing and emerging risks to the Bank. RMD monitors and reports the progress of insurance recovery for the operational losses. Insurance function is centralised within the Administration Division; which is monitored through ORMC.

Legal risk →

Legal risk is also a part of operational risk. Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way of law and regulation apply to business, its relationships, processes, products and services. It includes the risk of losses due to deficiencies in drafting contracts entering into transactions without written agreements or inadequate agreements which may result in fines, penalties and punitive damages.

Legal risk management is the process of making and carrying out the decisions that reduce the frequency and severity of legal problems that prejudice the Bank's ability to meet its objectives successfully. The Legal Division involves ensuring conformity to laws and regulations regarding product and business operations and contractual relationships with third parties such as customers or service providers.

The Legal Division provides guidance to the business divisions and engages in strategic management of the legal risk of the Bank.

Compliance and regulatory risk →

Compliance and regulatory risk is directly resulted from non-compliance with applicable laws and regulations, directions, policies, codes of conducts and standards of practice in the banking industry. This may lead to regulatory sanction, financial penalties, disruption in business operations and reputational damages. Compliance policy framework includes the Board approved Compliance Policy, AML Policy, Related Party Transactions Review Policy and Compliance Manual which specify on how the compliance risk is managed by the Bank. The Compliance Division headed by the Compliance Officer directly reports to the Board through BIRMC and takes measures to mitigate the compliance risk of the Bank. During the year 2020, following actions have been taken to minimise the compliance and regulatory risk of the Bank:

- Ensure timely review of applicable policies and procedures.
- Conduct compliance assessments on branches, divisions and products of the Bank.
- Creating awareness through training sessions.
- Assessing and monitoring of supervisory concerns.
- Adopt Money Laundering (ML)/ Terrorist Financing (TF) risk assessment within the Bank.

In running AML and CDD activities remotely or on site but with drastically downsized teams due to social distancing measures is a risk to be focused by the Bank apart from the operational restrictions experienced in COVID-19 pandemic.

Reputational risk →

Reputational risk is an indirect loss arising from an event or incident that adversely affects the corporate brand. A negative perception or publicity about the Bank results in costly litigation, revenue reduction and a decrease of the customer base. Hence, management of reputational risk is highly important for financial institutions to maintain the public confidence in its operations.

Reputational risk is broadly managed through systems and controls adopted for all other risk as reputational risk is driven by a wide range of other business risks which are managed by the policies, procedures, code of conduct and business ethics.

Bank has maintained an immaculate reputation over four decades as a premier licensed specialised state bank in Sri Lanka. Therefore, the negative impact on reputation has been low. A sound reputation reflects the integrity of the Bank, the competence of staff and customised products & services that create the foundation for customer confidence.

Bank has a zero-risk appetite for reputational losses. Thus, RMD closely monitors the reputational risk through early warning indicators. The Bank uses various channels to communicate the customers, other stakeholders and to safeguard the reputation from adverse communications. A scorecard based model is used to assess the reputational risk based on the ICAAP guidelines.

Strategic risk

Strategic risk is the potential loss to earnings and viability of strategies in responding to changes in competitive landscape, regulatory framework or ineffective positioning in the macroeconomic environment.

Responsibility for strategy development rests with the divisional heads through the strategic planning and budgeting process which aligns the Bank's vision, mission and the risk appetite. In deriving the strategies, management formulates strategic objectives which are achievable and well positioned to create value and meet customer needs for the foreseeable future.

The inputs from the Research Division are incorporated in formulating business strategies for the Bank. The Bank has taken necessary steps to ensure availability of right talent, capabilities, infrastructure and technology to minimise the strategic execution risk. In minimising the strategic consequence risk, management reviews the progress of the strategic decisions made on a regular basis.

The Board has the oversight responsibility towards the strategic risk of the Bank, which is monitored by the Senior Management through frequent reviews. A score card-based model is used to assess the strategic risk based on the ICAAP guidelines.

Capital review

The Bank requires a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors/creditors, maintain leeway for future business expansion and generate adequate return to its shareholders.

Managing capital assures resilience of the Bank while generating stakeholder return. Hence, the Bank strives to manage capital more efficiently by achieving the optimum balance between performance and risk and conduct stringent monitoring of the Risk Weighted Asset (RWA) mix and changes in the risk profile. Capital management process is in line with the guidelines issued by the CBSL.

As per the Banking Act Directions No. 11 of 2019 and amendments to Directions on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, it is required to maintain the minimum capital ratios as prescribed in the Table 32.

As NSB is no longer considered as a D-SIB, maintaining of higher loss absorption is not required.

CBSL has allowed Non D-SIBs to draw down their capital conservation buffer (CCB) by 50bps in the context of the downturn in economic activities following COVID-19. Further, extraordinary regulatory measures facilitated for the improvement of RWAs.

During 2019, the Bank acquired Sri Lanka Savings Bank for a total purchase consideration of Rs. 3.1 Bn. Bank obtained the approval of the Monetary Board to exclude the investment from the total regulatory adjustments to Common Equity Tier 1 (CET1) for a period of three years. However, the investment is credit risk weighted by applying a 250% risk weight. Bank paid Rs. 1 Bn. dividend for the year 2020 against the Rs. 2 Bn. in the previous year.

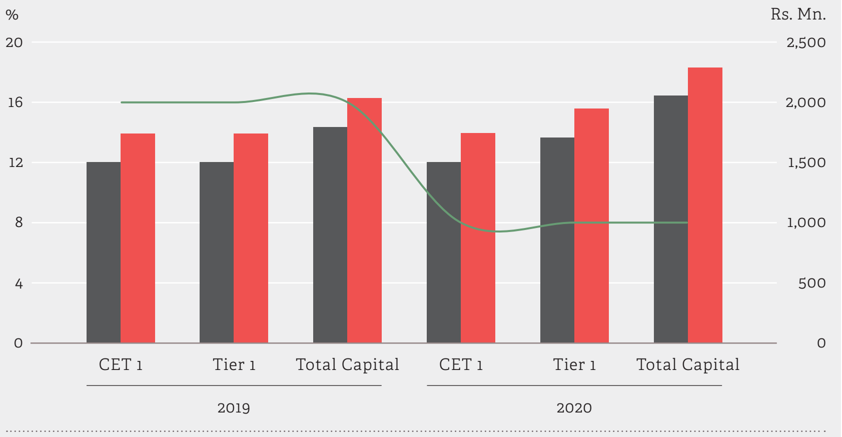
The Bank issued a Basel III compliant perpetual Additional Tier 1 instrument amounting to Rs. 5 Bn. at a floor rate of 9% in October 2020.

The Bank achieved the regulatory minimum requirements set for capital adequacy during the year 2020. CET1 ratio position decreased during the year to 12.03% as at 31 December 2020, from 13.49% as at 31 December 2019. However, as a result of issuing qualifying Additional Tier 1 capital instruments, Bank's Tier 1 Capital ratio increased to 13.65% as at 31 December 2020. Total Capital ratio increased to 16.45% as at 31 December 2020 against 15.82% as at 31 December 2019.

The subsidiaries of the Bank contributed positively to CAR at Group level. The total capital ratio for the Group is 18.3% in 2020 against 17.74% as at December 2019. As the 100% state owned savings bank, there are limited options available to raise regulatory capital externally. Hence, the most preferable source to augment the capital is retained earnings.

Capital level Bank and Group

Graph 39



Ratios (%)	Regulatory Minimum	Regulatory Minimum without CCB	Actual as at 31 December 2020		Actual as at 31 December 2019	
			Bank	Group	Bank	Group
CET 1 plus CCB	7.00	6.5	**12.03**	**13.96**	13.49	15.37
Tier 1 plus CCB	8.50	8.0	**13.65**	**15.57**	13.49	15.37
Total Capital	12.5	12.0	**16.45**	**18.30**	15.82	17.74

Table 32 Capital adequacy ratio

ICAAP promotes an integrated approach, combining risk management practices and strategic business planning to gain operational efficiencies, growth and solvency.

Internal Capital Adequacy Assessment Process (ICAAP) – Pillar II

The ICAAP comprises risk appetite, stress testing and capital planning concepts along with a sound risk management framework to capture all material risks. This enables combining the business performance, risk management actions and risk sensitive capital in a more rational manner to ensure the level of internal capital commensurate with the Bank's risk profile.

The Bank has a Board approved ICAAP Policy which is in line with the CBSL directions on Basel III Pillar II guidelines issued to banks on the Supervisory Review Process and international best practices.

Bank's ICAAP is governed by four principles which are fundamentals for the Bank and the regulator. The process involves integrating risk to decision making, comprehensive risk assessment, reviewing of internal controls, monitoring, reporting and stress testing risks with the oversight responsibility of the Board through BIRMC.

Risk assessment captures both Pillar I and Pillar II risks. Pillar I risks deal with regulatory capital requirements whilst Pillar II risks deal with economic capital.

The Bank has internal models to assess and quantify the risk profile and internal capital requirements. Internal limits have been set covering the internal capital requirement to provide effective assessment with regard to capital adequacy. Comprehensively documented ICAAP is discussed and approved by ALCO and the Board through BIRMC prior to submitting to the regulator.

Stress testing

Stress Testing is an integral part of ICAAP under Pillar II. The Bank's stress testing framework is governed by the Board approved Stress Testing Policy and guidelines issued by the CBSL. The Bank's stress testing framework includes stress tests on all the material risks such as credit risk, interest rate risk in trading book and banking book, operational risk, liquidity risk, concentration risk and residual credit risk. The Bank has defined three levels of increasing adversity, i.e. minor, medium and major (or Low, Medium and High) for the stress testing purposes.

Stress testing provides understanding on ability of the Bank to withstand unforeseen scenarios of varying severity under adverse economic, political and physical changes in the environment in which it operates.

Bank stress tested the COVID-19 scenario and the change in regulations to understand the impact on solvency indicators in order to support decision making.

The Bank uses sensitivity analysis to measure the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices.

The Bank mainly uses sensitivity analysis to identify the impact on trading and banking book due to adverse interest rate fluctuations and reports are submitted to ALCO on a periodic basis. These reports are instrumental in Asset and Liability management, and pricing decisions of the Bank.

	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Unrealised gain/(loss) of Government Securities portfolio against cost at the end of 2020	143,897	73,521	217,418
Change in M2M value			
100bps increase in yield	(206,648)	(253,099)	(459,747)
200bps increase in yield	(403,831)	(498,106)	(901,937)
100bps decrease in yield	216,686	261,547	478,233
200bps decrease in yield	516,747	531,918	1,048,665

Table 33 Sensitivity analysis-interest rate risk in trading book – Government Securities

100bp rate shock on negative gaps		<1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years	Total
Stand-alone Level	Gap	(185,148)	(312,815)	(187,290)	(270,688)	287,943	296,495	380,416	8,912
	Impact on NII (Rs. Mn.)	(1,780)	(2,614)	(1,180)	(705)	–	–	–	(6,279)
Consolidated Level	Gap	(185,914)	(315,028)	(181,474)	(268,105)	295,242	298,994	384,830	28,545
	Impact on NII (Rs. Mn.)	(1,788)	(2,632)	(1,144)	(698)	–	–	–	(6,262)

Table 34 Sensitivity analysis – assessment of yield curve risk in banking book

The results obtained from stress testing exercise are used in revising of risk appetite and risk limits, capital planning, strategic business planning and to manage the risks in critical business operations to support proactive decision-making.

Risk Area	Scenario	Impact to CAR		
		Low %	Medium %	High %
Credit risk	Credit Risk: Increase in NPA due to an economic downturn (Low – 10%, Medium – 20%, High – 30%)	-0.065	-0.108	-0.216
Market risk	Interest Rate Risk: Increase in market yield (Low 0.5bps, Medium 1bps, High 2bps)	-0.03	-0.06	-0.12
	Equity Price Risk: Decline in Market prices (Low 15%, Medium 20%, High 25%)	0.15	0.17	0.20
	FX Risk: LKR depreciation (Low 5%, Medium 10%, High 15%)	-0.006	-0.012	-0.018
Operational risk	Increase in operational losses classified under Basel II loss event categories	-0.02	-0.03	-0.04

Table 35 Impact to the capital adequacy at different stress levels

Minimum disclosure requirements – Pillar III

Minimum disclosure requirements were introduced by the CBSL within the Basel III Framework to allow the market participants to gauge the capital adequacy and risk exposures of the Bank. Refer pages 287 to 300 for minimum disclosure requirements as per Banking Act Directions No. 01 of 2016.

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Financial Calendar

Financial Calendar 2020	
Publication of Interim Financial Statements for the quarter ended 31 March 2020	29 May 2020
Publication of Interim Financial Statements for the quarter ended 30 June 2020	31 August 2020
Publication of Interim Financial Statements for the quarter ended 30 September 2020	27 November 2020
Publication of Financial Statements (Audited) for the quarter ended 31 December 2020	30 March 2021
Proposed Financial Calendar 2021	
Publication of Interim Financial Statements for the quarter ended 31 March 2021	31 May 2021
Publication of Interim Financial Statements for the quarter ended 30 June 2021	31 August 2021
Publication of Interim Financial Statements for the quarter ended 30 September 2021	30 November 2021
Publication of Financial Statements (Audited) for the quarter ended 31 December 2021	31 March 2022

Annual Report of the Board of Directors

General

The Directors of the National Savings Bank have pleasure in presenting their Annual Report on the affairs of the Bank together with the Audited Financial Statements of the Bank and Consolidated Financial Statements for the year ended 31 December 2020. We ascertain that it gives the strategic picture of the Bank's business that explains how the Bank creates and sustains value over the years and in the future.

The Annual Financial Statements reviewed and recommended by the Board Audit Committee (BAC) were approved by the Board of Directors on 19 March 2021. The Audited Financial Statements were authorised to be issued on 21 March 2021. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL) and subsequent amendments thereto. The Annual Report and Financial Statements, together with the Auditor General's Report will be submitted to the Minister of Finance, to be tabled on the Parliament of Sri Lanka within 150 days after the end of financial year as per the Guidelines for Good Governance issued by the Department of Public Enterprises.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No. 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988. The Bank has been assigned [SL] AAA (Stable) long-term credit rating by the ICRA Lanka Limited.

Review of Business

Principal Activities of the Bank

The principal activity of the National Savings Bank is promotion of savings among the people of Sri Lanka and profitable investments of savings so mobilised. Accordingly, during the year under review, the principal activities of the Bank were, retail banking, corporate banking, trade financing, treasury dealing and investments, correspondence banking and money remittance facilities, pawning, foreign currency operations and other financial services.

Vision, Mission and Values

The Bank's Vision, Mission, and Values are given on pages 2 and 3 of this Annual Report. All permanent employees are being abided by the Code of Conduct of the Bank and the Government Oath with the view of maintaining the highest ethical standards in achieving the Vision and Mission of the Bank.

Government Guarantee

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

Subsidiaries of the Bank

NSB Fund Management Co. Ltd., and Sri Lanka Savings Bank Limited are the Bank's two Subsidiaries. The principal activity of the NSB Fund Management Company is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka.

Sri Lanka Savings Bank's principal activities are mobilising savings and time deposits, providing loans, lease, hire purchase, pawning, and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

Details of the transactions are given in Note 24 to the Financial Statements.

Changes to the Group Structure

There were no significant changes in the nature of the principal activities of the Bank and the Group.

Review of Business Performance

The overall review of financial performance of the Bank and the Group for the financial year 2020 are provided in the Chairperson's Message (pages 6 and 7), General Manager/CEO's Review (pages 8 to 10), "Financial Capital Review" on pages 24 to 38, and Audited Financial Statements (pages 134 to 282) provides a comprehensive review on key business lines and the state of affairs of the Bank. These reports form an integral part of the Annual Report.

Branch Network Expansions

Widening the Bank's presence in the island, three branches were added to the network during the year under review. At the end of the year the Bank has 259 branches in its network. The ATMs/CRMs network was further expanded enhancing customer convenience. The Bank installed 24 CRMs and 3 ATMs during the year across the island bringing out the total ATMs/CRMs to 361 excluding peer banks' ATMs through which customers of NSB can transact.

Preparation of Financial Statements

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Banking Act No. 30 of 1988 and amendments thereto and regulatory requirements inclusive of specific disclosures. The Financial Statements of the Bank and the Group for the year ended 31 December 2020 duly certified by the Senior Deputy General Manager – Finance and

Annual Report of the Board of Directors

Planning and approved and signed by the General Manager/CEO and two Directors including Chairperson of the Bank are given on pages 134 to 137 which form an integral part of the Annual Report of the Bank.

Accounting Policies and Changes during the Year

The Bank and the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs). The accounting policies adopted in preparation of Financial Statements are given on pages 144 to 160 in this report. There were no changes to the accounting policies of the Bank and the Group in the year under review.

Directors' Responsibilities for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank as at 31 December 2020 and its profit for the year then ended. The Directors are of the view that the Financial Statements appearing on pages 134 to 137 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRs/LKASs) and the Banking Act No. 30 of 1988 and its amendments, the NSB Act No. 30 of 1971 and amendments thereto. The Statement of Directors' Responsibility for Financial Reporting appearing on pages 123 and 124 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

Auditor's Report

The Auditor General had carried out the audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2020. Further, the Auditor General has carried out the audit of its Subsidiaries, NSB Fund Management Company and Sri Lanka Savings Bank Limited. In 2020, the continuous audit was carried out throughout the year for the Bank. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements which is unqualified appears on pages 130 to 132 of this Annual Report.

Future Developments

An overview of the future developments of the Bank is given in the Chairperson's Message (pages 6 and 7), General Manager/CEO's Review (pages 8 to 10) and "Strategy and Resource Allocation" on pages 19 to 23 in the Annual Report 2020.

Gross Income

The gross income of the Bank for 2020 was Rs. 127,547 Mn. (2019 – Rs. 121,929 Mn.) while the Group's income was Rs. 130,039 Mn (2019 – Rs. 125,810 Mn.). Analysis of the gross income are given in Note 3 to the Financial Statements.

Dividends and Reserves

Results and Appropriation

The profit before income tax of the Bank and the Group amounted to Rs. 15,645 Mn. and Rs. 16,791 Mn. (2019 – Rs. 10,462 Mn. and Rs. 13,092 Mn.).

The profit after tax of the Bank and the Group stood at Rs. 10,108 Mn. and Rs. 10,821 Mn. respectively (2019 – Rs. 6,381 Mn. and Rs. 8,713 Mn.). Details of profit relating to the Bank are given in the following Table:

	2020 Rs. Mn.	2019 Rs. Mn.
Profit for the year after payment of all expenses and providing for depreciation, expected credit losses and contingencies before VAT, NBT, DRL and income tax	**19,432**	15,659
VAT on financial services	**3,787**	3,046
NBT on financial services	**–**	366
Debt Repayment Levy	**–**	1,785
Provision for income tax	**5,537**	4,081
Net profit after tax	**10,108**	6,381
Other comprehensive income for the year, net of tax	**(4,498)**	(2,729)
Total comprehensive income for the year	**5,610**	3,652
Appropriations:		
Transfer to statutory reserve	**(505)**	(335)
Contribution to the National Insurance Trust Fund (NITF)	**(101)**	(67)
Contribution to the Consolidated Fund/dividend	**(1,000)**	(2,000)

Provision for Taxation →

The Income Tax Rate applicable for the Bank and Group on its operation was 28%. However, income tax rate applicable for banking sector has been reduced to 24% with effect from 1 January 2020, which is yet to be enacted. The Bank's and Group's operations are liable for Value Added Tax on Financial Services at the rate of 15%. The Bank and the Group were liable for Nations and Building Tax at 2% which was introduced on 1 February 2009 and abolished on 1 December 2019 while Debt Repayment Levy at 7% which was introduced on 1 October 2018 on financial services which was abolished on 1 January 2020.

The Bank and the Group provided deferred tax on all known temporary differences under the liability method in accordance with Sri Lanka Accounting Standard (LKAS) 12 – "Income Taxes". Information of Income Tax expenditure and Deferred Taxation are given in Notes 13 and 30 respectively on pages 171 and 211.

Dividends, Taxes and Levies/Contribution to Nation →

The Bank contributed Rs. 10,745 Mn. by way of taxes and levies to the Government in 2020 (2019 – Rs. 11,664 Mn.). This consisted of:

	2020 Rs. Mn.	2019 Rs. Mn.
Income tax	**5,537**	4,080
Value added tax	**3,787**	3,046
Nation building tax	**–**	366
Special fee	**320**	320
Debt repayment levy	**–**	1,785
Contribution to the Consolidated Fund	**1,000**	2,000
Contributions to National Insurance Trust Fund	**101**	67
Total contribution to the Nation	**10,745**	11,664

Reserves →

The total reserves of the Bank stood at Rs. 42,497 Mn. as at 31 December 2020 (2019 – Rs. 36,525 Mn). The Bank's Reserves consist of:

	2020 Rs. Mn.	2019 Rs. Mn.
Statutory reserve fund	**4,068**	3,563
Revaluation reserve	**6,679**	5,611
Retained earnings	**11,883**	8,195
Other reserves	**19,867**	19,156
Total reserves	**42,497**	36,525

Information on changes of reserves is given in the Statement of Changes in Equity on pages 138 to 141.

Service Charges to Postmaster General (PMG)

Service charges to the PMG for 2020 amounting to Rs. 160 Mn. has been provided for on the same basis as in 2019.

Retirement Benefits and Obligations

The Bank maintains two Pension Funds namely: Staff Pension Fund I and Staff Pension Fund II. Further the Bank maintains a Widows'/Widowers' and Orphans Pension Fund as well as a Post-Employment Medical Scheme. Details are given in Note 38 on Retirement Benefit Obligations on pages 219 to 229 in Notes to the Financial Statements.

Property, Plant and Equipment and Capital Expenditure

The total Net Book Value of Property, Plant and Equipment of the Bank and the Group (including intangible assets) as at the year-end 2020 was Rs. 16,004 Mn. and Rs. 16,892 Mn. respectively (2019 – Rs. 14,163 Mn. in the Bank and Rs. 14,457 Mn. in the Group).

Details are given in Notes to the Financial Statements as follows:

- Note 26 to the Financial Statements: Property, Plant and Equipment on pages 200 to 206.
- Note 29 to the Financial Statements: Goodwill and Intangible Assets on pages 209 and 210.
- Note 48.1 to the Financial Statements: Capital Commitments on page 235.

The total capital expenditure incurred by the Bank on the acquisition of property, plant and equipment and Intangible Assets (Including capital work-in-progress) during the year amounted to Rs. 2,159 Mn. (2019 – Rs. 2,207 Mn.) and Group amounted to Rs. 2,169 Mn. (2019 – Rs. 2,212 Mn.), the details of which are given in Notes 26. (a) and 26. (b) to the Financial Statements on pages 202 to 205 of this Annual Report.

Market Value of Freehold Property

The Bank carried out a revaluation on entire class of freehold land and buildings of the Bank in December 2020 by professionally qualified independent valuers and brought into the Financial Statements in the same year. The revaluation process was carried out as per the Central Bank of Sri Lanka Direction No. 1 of 2014 on "Valuation of Immovable Property of Licensed Specialised Banks". The Board of Directors is on the view that revalued amounts are not in excess of the current market values.

Stated Capital and Shareholding

Stated Capital →

The authorised share capital of the Bank is Rs. 10 Bn. which is made of one billion ordinary shares of Rs. 10/- each. The issued share capital of the Bank as at 31 December 2020 stood at Rs. 9.4 Bn. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital. The details are given on page 230 in Notes 43 on Stated Capital/Assigned Capital and Note 46.1 on Unclaimed Deposit Reserve on page 233.

Annual Report of the Board of Directors

Shareholding

The Government of Sri Lanka is the sole shareholder of the National Savings Bank.

Issue of Subordinated Debenture

Outstanding subordinated liabilities of the Bank as at 31 December 2020 consisted Rs. 6 Bn., Rated, Unsecured Subordinated and Redeemable debentures of Rs. 100.00 issued on 29 December 2016 on Private Placement and Rs. 5 Bn. unlisted, rated, unsecured, subordinated, Perpetual Debentures of Rs. 100 issued on 27 October 2020 on Private Placement. Rs. 6 Bn. Debenture is eligible for the Tier II Capital of the Bank while Rs. 5 Bn. Debenture is eligible for additional Tier I Capital. The details of debentures outstanding as at the date of Financial Position are given in Note 37.1 of the Financial Statements on pages 217 and 218 on subordinated liabilities.

Issue of Senior Debenture

Outstanding non-subordinated debenture of the Bank as at 31 December 2020 consisted of Rs. 20 Bn. Unlisted Rated, Senior, Unsecured, Redeemable debentures of Rs. 100.00 issued on 28 August 2019 as Private Placement. Information on Senior Debenture is given in Note 37.2 on page 218 of this Annual Report.

Share Information

The basic earnings per share and net assets value per share of the Bank 2020 were Rs. 10.75 (2019 – Rs. 6.79) and Rs. 55.21 (2019 – Rs. 48.86) respectively for the period under review. The details are given in Note 14 on basic earnings per ordinary share on page 173 and Note 50 on net assets value per ordinary share on page 241.

Corporate Sustainability and Responsibility (CSR)

The Bank carried out CSR activities during the year 2020 with a total cost of Rs. 18.1 Mn.

Board of Directors

Information of the Directors during the year 2020

The Board of Directors comprises seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and the Postmaster General as per the Section 11 (1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995. The Minister of Finance appoints the Chairman and other four Directors. The following were the Directors during the year and their brief profiles appear on pages 40 to 44 of this Annual Report.

Name	Date of appointment	Membership status
Ms Keasila Jayawardene – Chairperson	2 January 2020	NED/NID
Mr Eranga Jayewardene – Senior Director (From 15 June 2020)	23 January 2020	NED/ID
Mr U G R Ariyaratne – Ex officio Director	31 August 2018	NED/NID
Dr M K C Senanayake – Ex officio Director	11 January 2020	NED/NID
Ms Manohari Abeyesekera – Director	14 January 2020	NED/ NID
Brigadier Dr Thiran De Silva (Rtd.) – Director (From 17 January 2020 to 9 October 2020)	17 January 2020	NED/NID
Mr M T J Perera – Director	11 April 2020	NED/NID

List of Directors of the Subsidiaries of the Bank

Names of the Directors of NSB Fund Management Co. Ltd. during the year 2020 are as follows:

- Ms Keasila Jayawardene – Chairperson
- Mr U G R Ariyaratne – Director
- Ms Manohari Abeyesekera – Director
- Mr M T J Perera – Director
- Mr W O Rodrigo – Director
- Mr M P A W Peiris – Director (From 4 November 2020 to date)
- Brigadier Dr Thiran De Silva (Rtd.) – Director (From 17 January 2020 to 12 October 2020)
- Mr S D N Perera – Director (From 26 July 2014 to 7 February 2020)
- Ms R M D K Rathnayake – Director (From 2 June 2020 to 9 October 2020)

Names of the Directors of Sri Lanka Savings Bank Limited during the year 2020 are as follows:

- Ms Keasila Jayawardene – Chairperson
- Mr H D P Gamage – Director
- Mr N P Imbulagoda – Director
- Mr Janaka Arunashantha – Director
- Mr M T J Perera – Director
- Mr Sunil Galagama – Director (From 13 January 2020 to 5 October 2020)
- Brigadier Dr Thiran De Silva (Rtd.) – Director (From 17 January 2020 to 9 October 2020)

Board Subcommittees

The Board of Directors while assuming the overall responsibility and accountability has also appointed four mandatory Board Subcommittees namely; Board Audit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" issued by the CBSL to ensure oversight control over affairs of the Bank.

The Board of Directors has also appointed three other voluntary Board Subcommittees namely; Board Credit Committee, Board Information Technology Strategy Committee and Board Marketing Strategic Committee to assist the Board in discharging its duties. However, with effect from 8 February 2021, these non-mandatory Committees were discontinued as per the decision made by the Board of Directors. The Terms of Reference of these Board Subcommittees conform to the recommendations made by regulatory bodies such as CBSL and NSB Act as well as voluntary codes issued by the CA Sri Lanka.

The composition of both mandatory and voluntary Board Subcommittees as at 31 December 2020 and the details of the attendance by Directors at meetings are disclosed on page 53 and the Reports of these Subcommittee are given on pages 78 to 91.

Directors' Meetings

The details of Directors' meetings which comprise of Board Meetings and Board Subcommittee meetings and the attendance are given in the Corporate Governance Report on page 53 of the Annual report.

Directors' Interests in Contracts

Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 49.5.2 to the Financial Statements on page 239. These interests have been declared at the Board meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Directors' Interest in Debentures issued by the Bank

There were no debentures registered in the name of any Director.

Directors' Remuneration and Other Benefits

Details of Directors' emoluments and other benefits in respect of the Bank and the Group for the financial year 2020 are given in Note 49.5.1 to the Financial Statements on page 239.

Related Party Transactions

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS) 24 – "Related Party Disclosures" which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 49.5.3 on pages 239 to the Financial Statements forming part of the Annual Report of the Board of Directors.

Environmental Protection

The Group and the Bank has not, to the best of their knowledge, engaged in activity, which was detrimental to the environment.

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory bodies and in relation to the employees have been made in time.

Events after the Reporting Date

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the accounts, other than those disclosed in Note 52 to the Financial Statements on page 242.

Going Concern

The Board of Directors have reviewed and satisfied that the Bank has ample resources to continue its operations in the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plan to curtail operations.

Annual Report of the Board of Directors

Risk Management, Internal Controls and Management Information Systems

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 92 to 114 in Risk and Capital Management Report and Board Integrated Risk Management Report on pages 84 and 85 of this Report.

Appointment of Auditors, their Remuneration

The Auditor General is the Auditor of National Savings Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

The expenses incurred in respect of audit fees and other services rendered during the accounting period are given in Note 12 to the Financial Statements on page 170.

Regulatory Supervision

As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

Corporate Governance

In the management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and Procedures. Accordingly, the Directors have declared that:

(a) The Bank has complied with applicable laws and regulations in conducting its business and have not engaged in any activity breaching the relevant laws and regulations.

(b) They have declared all material interest in contracts involving the Bank and refrained from involving any matter which they have a material interest.

(c) The business is a going concern and the Board of Directors have reviewed the Strategic Business Plan and is satisfied that the Bank is having adequate resources to accelerate the future momentum of NSB in foreseeable future. Thus, the Financial Statements of the Bank and its subsidiary are prepared based on the going concern assumption.

(d) The Bank has disclosed in the Financial Statements on Related Party Transactions.

(e) The Bank has conducted a review on internal controls which covers financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and adherence.

Sustainability

When formulating its business strategies, the Bank has considered the sustainability aspects.

Human Resources

The Bank continued to develop and maintain dedicated and highly-motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 51 to the Financial Statements on page 242 will not have a material impact on the financial position of the Bank or its future operations.

Acknowledgement of the Contents of the Report

The Board of Directors hereby acknowledge the contents of this Annual Report.

By Order of the Board,

Keasila Jayawardana

Keasila Jayawardena
Chairperson

Anupama Muhandiram
Secretary to the Board

19 March 2021
Colombo

Statement of Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the National Savings Bank (the Bank) and Consolidated Financial Statements of the Bank and its Subsidiaries (the Group) are set out in this statement.

Financial Statements

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with generally accepted accounting principles, Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank and the Group at the end of each financial year in compliance with the relevant statutory requirements. The Financial Statements comprise of the Income Statement, Statement of Comprehensive Income, Statement of Financial Position as at 31 December 2020, Statement of Changes in Equity and Statement of Cash Flow, Significant Accounting Policies and Notes thereto.

The Financial Statements of the Bank and its Subsidiaries give a true and fair view of the:

1. Financial position of the Bank and its Subsidiaries as at 31 December 2020; and
2. Financial performance of the Bank and its Subsidiaries for the financial year then ended 31 December 2020.

In preparing these Financial Statements, the Directors are required to ensure that:

1. The accounting policies adopted to prepare the Financial Statements which are depicted on pages 144 to 160 were appropriate according to the existing financial reporting framework. These policies were consistently applied and adequately disclosed.
2. Reasonable and prudent judgements have been made where necessary to ensure the proper reflection of the form and substance of transaction when preparing the Financial Statements.
3. All applicable Accounting standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971, the Board of Directors are required to control and administer the affairs and the business of the Bank.

The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Banks.

The Board of Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report (Financial Statements are exhibited on pages 134 to 143). The Financial Statements for the year 2020 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Banking Act No. 30 of 1988 and amendments thereto.

Internal Controls

The Board of Directors has been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the Group, detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness which includes internal audit. The Directors ensure that the Financial Statements are reviewed by them directly at their regular meetings and also through the Board Audit Committee. The Directors' Statement on Internal Control Over Financial Reporting is given on page 125 of this Annual Report and Auditor General's Assurance Report on the Bank's Internal Control is given on page 127.

Audit Report

The Auditor General has been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which the Auditor General's Department has examined and have expressed the Auditor General's opinion which appears as reported by him on page 130 of this Annual Report.

Statement of Directors' Responsibility for Financial Reporting

Compliance Report

The Directors confirm that to the best of their knowledge and belief that all taxes, payable by the Bank and the Group and all contributions and taxes payable on behalf of and in respect of employees of the Bank and the Group, and all other known statutory dues to the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank and the Group as at the date of Statement of Financial Position have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory and other factors required to be addressed in the Corporate Governance Code issued jointly by CA Sri Lanka and the SEC, the Bank and the Group have adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

By Order of the Board,

Anupama Muhandiram
Secretary to the Board

19 March 2021
Colombo

Directors' Statement on Internal Control over Financial Reporting

Responsibility

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on principles D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka (Code) the Board of Directors presents this report on internal control.

The Board of Directors (The Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank on the Directors' Statement on internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account all main principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risks and controls by identifying and assessing the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting

The Board has also put in place the system of reviewing the design and the effectiveness of system of internal control periodically. The key processes, among other things include the following:

- The Board Subcommittees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, policies and business directions that have been approved.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions are taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2020 are set out in the Board Audit Committee report appearing on page 78 of this Annual Report. The Internal Audit Division of the Bank carries out audit of branches, divisions and other units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies and procedures and the effectiveness of the internal control systems and reports its findings in respect of any non compliance. Audits are carried out to provide an independent and objective report on operational and management activities. The findings of the audits are submitted to the BAC for review at their periodic meetings. The activities of the BAC, along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.
- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Board has also established an independent Compliance Unit which ensures that Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issues of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covered only the process applied by the Bank and did not include the processes carried out by its Subsidiaries.

Directors' Statement on Internal Control over Financial Reporting

The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continue monitoring and progressive enhancement on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made.

Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding their liability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by the External Auditors

The External Auditors, the Auditor General has reviewed the above Directors' Statement on Internal Control over financial reporting for the year ended 31 December 2020 and report to the Board of Directors that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given on page 127 of this annual report.

By Order of the Board,

Ms Keasila Jayawardena
Chairperson

Ms Manohari Abeyesekara
Chairperson
Board Audit Committee/Director

Dr M K C Senanayake
Director

7 April 2021
Colombo

Independent Assurance Report on Internal Control

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAF/A/NSB/IC/2020/11 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 07 April 2021

The Chairperson
National Savings Bank

Independence Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank.

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over financial reporting ("Statement") of National Savings Bank included in the annual report for the year ended 31 December 2020.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Bank on the Directors' Statement on Internal Control" issued in compliance with the section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibilities and Compliance with SLSAE 3050 (Revised)

My responsibility is to assess whether the statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the National Savings Bank.

I conducted this engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 (Revised) – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

This standard required that I plan and perform procedures to obtain limited assurance about whether management has prepared, in all material aspects, the statement on internal control.

For the purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed and audit or review of the financial information.

Summary of Work Performed

I conducted my engagement to assess whether the statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require me to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The Procedures selected depend on my judgment, having regard to my understanding of the nature of the bank, the event or transaction in respect of which the statement has been prepared.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

My Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

W P C Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව
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General Manager/CEO's and Senior Deputy General Manager's (Finance and Planning) Statement of Responsibility

Compliance

The Financial Statements of the National Savings Bank (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the Group) as at 31 December 2020 are prepared and presented in compliance with following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL) there under relating to Financial Statements formats and disclosure of information.
- Sri Lanka Financial Reporting Standards/ Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- Code of Best Practices on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the CBSL.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the Central Bank of Sri Lanka which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard 1 (LKAS 1) – 'Presentation of Financial Statements'. The Bank and the Group present the financial results to its users on a quarterly basis.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank and the Group. The significant accounting policies and estimates that involved a high degree of judgement and complexity were discussed with the Bank's External Auditors and the Board Audit Committee (BAC).

There were no changes to the accounting policies and methods of computation since the publication of the Annual Report for the year ended 31 December 2019. Accordingly, there was no necessity to amend comparative information to comply with the current presentation.

We confirm that to the best of our knowledge, the Financial Statements, significant accounting policies and other financial information included in this Annual Report, fairly present in all material aspects of the assets, liabilities, results of the operations and the cash flows of the Bank and the Group during the year under review and given a true and fair view of the Financial Statements. We also confirm that the Bank and the Group have adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements.

Responsibility of Internal Control and Procedures

We are responsible for establishing, implementing and maintaining internal controls and procedures of the Bank and its Subsidiaries. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Bank and the Group is made known to us for safeguarding assets, preventing and detecting fraud and/ or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. We are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involved management or other employees. The Bank's Internal Auditors also conduct periodic reviews to ensure that the established Internal Controls over Financial Reporting and Procedures are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

Directors' Statement on Internal Control over Financial Reporting is provided on pages 125 and 126 of this Annual Report. The Auditor General have audited the effectiveness of the Internal Controls over financial reporting adapted by the Bank and have given an unqualified opinion is provided on page 127 of this Annual Report.

General Manager/CEO's and Senior Deputy General Manager's (Finance and Planning) Statement of Responsibility

External Audit

The Financial Statements of the Bank and its Subsidiaries were audited by the Auditor General. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on pages 130 to 132 of this Annual Report. The Board Audit Committee, *inter alia*, reviewed all Internal Audit and Inspection Programmes, the efficiency of internal control systems and procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee report on pages 78 and 79 of this Annual Report. To ensure complete independence, the Auditor General and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

Confirmation

We confirm that to the best of our knowledge:

- The Bank and the Group have complied with all applicable laws and regulations and prudential requirements
- There are no material non-compliances and
- There are no material litigations that are pending against the Bank and the Group other than those disclosed in Note 51 on page 242 of the Financial Statements;
- All taxes, duties, levies and all statutory payments payable by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at 31 December 2020 have been paid, or where relevant, provided for.

M P A W Peiris
General Manager/CEO

K Raveendran
Senior Deputy General Manager
(Finance and Planning)

19 March 2021
Colombo

Auditor General's Report

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NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. } BAF/A/NSB/2020/10

ඔබේ අංකය / உமது இல. / Your No. }

දිනය / திகதி / Date } 21 March 2021

Chairperson
National Savings Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the National Savings Bank and its Subsidiaries for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of National Savings Bank (the "Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries (the "Group") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My report to Parliament in Pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Other Information Included in the Bank's 2020 Annual Report

The other information comprises the information included in the Bank's 2020 Annual Report but does not include the financial statements and my Auditor's Report thereon, which is expected to be made available to me after the date of this Auditor's Report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Bank's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව
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NAOSL

1.4 Responsibilities of Management and those Charged with Governance for the Financial Statements →

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Bank and Group are required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements →

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my Auditor 's Report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I Communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act No. 19 of 2018 includes specific provisions for following requirements.

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of Section 12 (a) of the National Audit Act No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 To state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act No. 19 of 2018;

2.2.2 To state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of Section 12 (f) of the National Audit Act No. 19 of 2018;

2.2.3 To state that the Bank has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act No. 19 of 2018;

2.2.4 To state that the resources of the Bank had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act No. 19 of 2018.

W P C Wickramaratne
Auditor General

Content of Financial Statements

Income Statement

For the year ended 31 December	Note	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Bank Change %	Group 2020 Rs. '000	Group 2019 Rs. '000	Group Change %
Gross income	3	**127,547,060**	121,929,059	5	**130,039,494**	125,810,171	3
Interest income		**122,512,049**	118,729,784	3	**124,608,182**	120,351,774	4
Less: Interest expenses		**87,621,868**	89,897,770	(3)	**88,425,490**	90,868,139	(3)
Net interest income	4	**34,890,181**	28,832,014	21	**36,182,692**	29,483,635	23
Fee and commission income		**2,710,487**	1,261,268	115	**2,723,087**	1,269,521	114
Less: Fee and commission expenses		**154,486**	131,954	17	**160,556**	136,838	17
Net fee and commission income	5	**2,556,001**	1,129,314	126	**2,562,531**	1,132,683	126
Net gain/(loss) from trading	6	**1,273,676**	1,491,610	(15)	**1,745,329**	1,963,229	(11)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	7	**–**	–	–	**–**	–	–
Net gains/(losses) from derecognition of financial assets	8	**241,284**	22,021	996	**241,284**	22,021	996
Net other operating income	9	**809,564**	424,376	91	**721,612**	2,203,626	(67)
Total operating income		**39,770,707**	31,899,335	25	**41,453,448**	34,805,194	19
Less: Impairment charges	10	**4,873,768**	565,536	762	**4,932,840**	590,700	735
Net operating income		**34,896,939**	31,333,799	11	**36,520,608**	34,214,494	7
Less: Expenses							
Personnel expenses	11	**9,966,786**	10,157,926	(2)	**10,152,485**	10,217,978	(1)
Depreciation and amortisation expenses		**1,240,503**	1,042,933	19	**1,256,826**	1,048,095	20
Other expenses	12	**4,258,307**	4,474,053	(5)	**4,313,367**	4,461,457	(3)
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services		**19,431,342**	15,658,887	24	**20,797,931**	18,486,964	13
Less : VAT on financial services		**3,786,717**	3,045,921	24	**4,006,877**	3,208,584	25
NBT on financial services		**–**	366,157	(100)	**–**	383,614	(100)
DRL on financial services		**–**	1,785,171	(100)	**–**	1,803,225	(100)
Operating profit after VAT, NBT and DRL on financial services		**15,644,625**	10,461,638	50	**16,791,054**	13,091,541	28
Share of profits of associates and joint ventures		**–**	–	–	**–**	–	–
Profit before income tax		**15,644,625**	10,461,638	50	**16,791,054**	13,091,541	28
Less: Income tax expenses	13	**5,536,709**	4,080,468	36	**5,969,936**	4,378,631	36
Profit for the year		**10,107,916**	6,381,170	58	**10,821,118**	8,712,910	24
Profit attributable to:							
Equity holders of the Bank		**10,107,916**	6,381,170	58	**10,821,118**	8,712,910	24
Non-controlling interests		**–**	–	–	**–**	–	–
Profit for the year		**10,107,916**	6,381,170	58	**10,821,118**	8,712,910	24
Earnings per share on profit							
Basic earnings per ordinary share (Rs.)	14	**10.75**	6.79	58	**11.51**	9.27	24
Diluted earnings per ordinary share (Rs.)		**10.75**	6.79	58	**11.51**	9.27	24
Profit for the year		**10,107,916**	6,381,170	58	**10,821,118**	8,712,910	24

The Notes to the Financial Statements disclosed on pages 144 to 282 are integral parts of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Bank Change %	Group 2020 Rs. '000	Group 2019 Rs. '000	Group Change %
Profit for the year	**10,107,916**	6,381,170	58	**10,821,118**	8,712,910	24
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	**–**	–	–	**–**	–	–
Net gains/(losses) on cash flow hedges	**–**	–	–	**–**	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	**–**	–	–	**–**	–	–
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Debt instruments at fair value through other comprehensive income	**273,544**	127,928	114	**329,820**	227,305	45
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	**(241,284)**	(13,717)	1,659	**(241,284)**	(13,717)	1,659
Deferred tax effect on above	**(9,033)**	(31,979)	(72)	**(9,033)**	(31,979)	(72)
Total items that will be reclassified to income statement	**23,227**	82,232	(72)	**79,503**	181,609	(56)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	**(776,162)**	(324,635)	139	**(774,791)**	(320,297)	142
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	**–**	–	–	**–**	–	–
Remeasurement of post-employment benefit obligations	**(6,684,417)**	(3,454,283)	94	**(6,681,422)**	(3,455,660)	93
Deferred tax effect on above	**1,871,637**	967,199	94	**1,871,637**	967,199	94
Remeasurement of post employment benefit obligations (net of taxes)	**(4,812,780)**	(2,487,084)	94	**(4,809,785)**	(2,488,461)	93
Changes in revaluation surplus	**1,482,472**	–	100	**1,921,578**	–	100
Deferred tax effect on above	**(415,092)**	–	100	**(415,092)**	–	100
Changes in revaluation surplus (net of taxes)	**1,067,380**	–	100	**1,506,486**	–	100
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Total items that will not be reclassified to income statement	**(4,521,563)**	(2,811,719)	61	**(4,078,090)**	(2,808,758)	45
Other comprehensive income for the year, net of taxes	**(4,498,336)**	(2,729,487)	65	**(3,998,586)**	(2,627,149)	52
Total comprehensive income for the year	**5,609,580**	3,651,683	54	**6,822,532**	6,085,762	12
Attributable to:						
Equity holders of the Bank	**5,609,580**	3,651,683	54	**6,822,532**	6,085,762	12
Non-controlling interests	**–**	–	–	**–**	–	–
Total comprehensive income for the year	**5,609,580**	3,651,683	54	**6,822,532**	6,085,762	12

The Notes to the Financial Statements disclosed on pages 144 to 282 are integral parts of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Bank Change %	Group 2020 Rs. '000	Group 2019 Rs. '000	Group Change %
Assets							
Cash and cash equivalents	16	**6,491,963**	5,376,715	21	**6,598,595**	5,564,824	19
Balances with central banks	17	**–**	–	–	**6**	58	(90)
Placements with banks	18	**13,253,499**	12,364,469	7	**17,456,660**	15,745,184	11
Derivative financial instruments	19	**19,897**	11,622	71	**19,897**	11,622	71
Financial assets recognised through profit or loss	20						
– measured at fair value		**11,221,746**	11,459,882	(2)	**23,617,944**	22,130,273	7
– designated at fair value		**–**	–	–	**–**	–	–
Financial assets at amortised cost							
– loans and advances	21	**516,795,160**	454,394,957	14	**517,833,067**	456,636,285	13
– debt and other instruments	22	**754,233,344**	615,634,321	23	**758,594,934**	619,567,786	22
Financial assets measured at fair value through other comprehensive income	23	**15,271,822**	3,478,811	339	**16,059,841**	4,626,582	247
Investments in subsidiaries	24	**4,811,000**	4,811,000	–	**–**	–	–
Investments in associates and joint ventures	25	**–**	–	–	**–**	–	–
Property, plant and equipment	26	**15,315,772**	13,564,578	13	**16,197,837**	13,857,882	17
Right of used assets	27	**1,226,183**	1,073,507	14	**1,271,525**	1,130,868	12
Investment properties	28	**–**	–	–	**237,077**	333,315	(29)
Goodwill and intangible assets	29	**687,961**	598,876	15	**694,160**	599,612	16
Deferred tax assets	30	**1,446,249**	–	100	**1,446,249**	338	428,226
Other assets	31	**23,033,780**	35,197,923	(35)	**23,192,936**	35,370,115	(34)
Total assets		**1,363,808,376**	1,157,966,664	18	**1,383,220,728**	1,175,574,745	18
Liabilities							
Due to banks	32	**12,862,337**	35,045,251	(63)	**13,339,705**	36,139,122	(63)
Derivative financial instruments	33	**–**	–	–	**–**	–	–
Financial liabilities recognised through profit or loss	34	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost	35						
– due to depositors		**1,237,123,791**	1,016,574,286	22	**1,237,669,284**	1,015,635,421	22
– due to debt securities holders		**–**	–		**–**	–	–
– due to other borrowers		**8,159,591**	21,203,242	(62)	**19,656,090**	32,808,023	(40)
Lease liability	36	**1,274,713**	1,066,882	19	**1,320,877**	1,121,441	18
Debt securities issued	37	**31,773,753**	26,691,711	19	**31,908,279**	26,955,697	18
Retirement benefit obligations	38	**10,885,085**	5,025,779	117	**10,916,429**	5,053,759	116
Current tax liabilities	39	**3,128,643**	–	100	**3,705,537**	565,704	555
Deferred tax liabilities	30	**–**	482,241	(100)	**1,121**	483,005	(100)
Other provisions	40	**–**	–	–	**–**	–	–
Other liabilities	41	**6,699,216**	5,951,464	13	**7,253,989**	7,430,415	(2)
Due to subsidiaries	42	**3,750**	547	585	**–**	–	–
Total liabilities		**1,311,910,879**	1,112,041,403	18	**1,325,771,311**	1,126,192,586	18

Statement of Financial Position

As at 31 December	Note	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Bank Change %	Group 2020 Rs. '000	Group 2019 Rs. '000	Group Change %
Equity							
Stated capital/assigned capital	43	**9,400,000**	9,400,000	–	**9,400,000**	9,400,000	–
Statutory reserve fund	44	**4,068,268**	3,562,872	14	**4,090,363**	3,571,214	15
Retained earnings	45	**11,883,168**	8,194,507	45	**16,085,184**	10,964,046	47
Other reserves	46	**26,546,061**	24,767,882	7	**27,873,870**	25,446,899	10
Total shareholders' equity		**51,897,497**	45,925,261	13	**57,449,417**	49,382,159	16
Non-controlling interests	47	**–**	–	–	**–**	–	–
Total equity		**51,897,497**	45,925,261	13	**57,449,417**	49,382,159	16
Total equity and liabilities		**1,363,808,376**	1,157,966,664	18	**1,383,220,728**	1,175,574,745	18
Contingent liabilities and commitments	48	**23,787,099**	10,355,197	130	**23,850,325**	10,691,602	123
Memorandum information							
Number of employees		**4,641**	4,715				
Number of branches		**259**	256				

Note: Amounts stated are net of impairment and depreciation.

The Notes to the Financial Statements disclosed on pages 144 to 282 are integral parts of these Financial Statements.

Certification
I certify that the above Financial Statements give a true and fair view of the state of affairs of National Savings Bank and the Group as at 31 December 2020 and its profit for the year ended.

K Raveendran
Senior Deputy General Manager (Finance and Planning)

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,

Ms Keasila Jayawardena
Chairperson

Dr M K C Senanayake
Director

Mr M P A W Peiris
General Manager/CEO

19 March 2021

Colombo
Sri Lanka

Statement of Changes in Equity

Bank

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2019	9,400,000	3,227,960	7,793,317
Prior year Adjustment*	–	–	(2,182,129)
Restated opening balance as at 1 January 2019	9,400,000	3,227,960	5,611,188
Profit for the year 2019	–	–	–
Other comprehensive income (net of tax)	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	334,912	–
Contribution to consolidated fund-dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	334,912	–
Balance as at 31 December 2019	9,400,000	3,562,872	5,611,188
Profit for the year 2020	–	–	–
Other comprehensive income (net of tax)	–	–	1,067,380
Total comprehensive income for the year	–	–	1,067,380
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	505,396	–
Contribution to consolidated fund-dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	505,396	–
Balance as at 31 December 2020	9,400,000	4,068,268	6,678,568

The Notes to the Financial Statements disclosed on pages 144 to 282 are integral parts of these Financial Statements.

*Please refer Note 53 comparative figures.

Statement of Changes in Equity

	OCI reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
	528,430	–	18,160,874	3,869,070	42,979,655
	31,979	–	–	2,833,244	683,094
	560,409	–	18,160,874	6,702,314	43,662,749
	–	–	–	6,381,170	6,381,170
	(242,403)	–	–	(2,487,084)	(2,729,487)
	(242,403)	–	–	3,894,087	3,651,684
	–	–	–	(334,912)	–
	–	–	–	(2,000,000)	(2,000,000)
	–	–	–	(66,982)	(66,982)
	–	–	677,811	–	677,811
	–	–	677,811	(2,401,894)	(1,389,171)
	318,006	–	18,838,685	8,194,507	45,925,261
	–	–	–	10,107,916	10,107,916
	(752,935)	–	–	(4,812,780)	(4,498,336)
	(752,935)	–	–	5,295,136	5,609,580
	–	–	–	(505,396)	–
	–	–	–	(1,000,000)	(1,000,000)
	–	–	–	(101,079)	(101,079)
	–	–	1,463,736	–	1,463,736
	–	–	1,463,736	(1,606,475)	362,657
	(434,929)	–	20,302,421	11,883,168	51,897,497

Statement of Changes in Equity

Group

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2019	9,400,000	3,227,960	7,793,317
Prior year Adjustment*	–	–	(2,182,129)
Restated opening balance as at 1 January 2019	9,400,000	3,227,960	5,611,188
Profit for the year 2019	–	–	–
Other comprehensive income (net of tax)	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	343,254	–
Contribution to consolidated fund-dividend/levy	–	–	–
Withholding tax on dividend	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	343,254	–
Balance as at 31 December 2019	9,400,000	3,571,214	5,611,188
Prior year Adjustment	–	–	–
Opening balance after prior year adjustment	9,400,000	3,571,214	5,611,188
Profit for the year 2020	–	–	–
Other comprehensive income (net of tax)	–	–	1,506,486
Total comprehensive income for the year	–	–	1,506,486
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	519,149	–
Contribution to consolidated fund-dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	519,149	–
Balance as at 31 December 2020	9,400,000	4,090,363	7,117,674

The Notes to the Financial Statements disclosed on pages 144 to 282 are integral parts of these Financial Statements.

*Please refer Note 53 comparative figures.

Statement of Changes in Equity

OCI reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
390,210	–	18,745,544	4,445,441	44,002,475
31,979	–	–	2,833,244	683,094
422,189	–	18,745,544	7,278,685	44,685,569
–	–	–	8,712,910	8,712,910
(138,688)	–	–	(2,488,461)	(2,627,149)
(138,688)	–	–	6,224,450	6,085,762
–	–	128,852	(472,106)	–
–	–	–	(2,000,000)	(2,000,000)
–	–	–	–	–
–	–	–	(66,982)	(66,982)
–	–	677,811	–	677,811
–	–	806,663	(2,539,088)	(1,389,171)
283,501	–	19,552,207	10,964,046	49,382,159
–	–	–	882,070	882,070
283,501	–	19,552,207	11,846,116	50,264,229
–	–	–	10,821,118	10,821,118
(695,287)	–	–	(4,809,785)	(3,998,586)
(695,287)	–	–	6,011,332	6,822,531
–	–	152,037	(671,185)	–
–	–	–	(1,000,000)	(1,000,000)
–	–	–	(101,079)	(101,079)
–	–	1,463,736	–	1,463,736
–	–	1,615,773	(1,772,264)	362,657
(411,786)	–	21,167,980	16,085,184	57,449,417

Statement of Cash Flow

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Cash flows from operating activities				
Interest receipts	**121,217,294**	116,116,735	**123,222,195**	117,913,757
Interest payments	**(87,043,414)**	(82,583,128)	**(87,905,761)**	(83,544,584)
Net commission receipts	**2,556,001**	1,129,314	**2,562,531**	1,132,683
Trading income	**1,073,229**	415,692	**1,475,091**	507,130
Payment to employees	**(9,573,701)**	(9,576,038)	**(9,784,100)**	(9,636,090)
VAT, NBT and DRL on financial services	**(3,635,577)**	(4,926,687)	**(3,875,451)**	(5,092,470)
Receipts from other operating activities	**453,266**	336,670	**481,659**	2,115,916
Payment on other operating activities	**(4,211,774)**	(4,449,742)	**(4,292,547)**	(4,432,794)
Operating profit before change in operating assets and liabilities	**20,835,323**	16,462,816	**21,883,617**	18,963,548
(Increase)/decrease in operating assets				
Balances with Central Bank of Sri Lanka	**–**	–	**–**	–
Placements with banks	**(878,260)**	5,088,591	**(1,631,768)**	1,707,876
Derivative financial instrument	**29,615**	4,744,070	**29,615**	4,744,070
Financial assets at FVPL	**635,258**	5,926,456	**(970,781)**	5,681,883
Financial assets at amortised cost – loans and advances	**(96,177,753)**	(31,733,787)	**(94,958,436)**	(33,889,390)
Financial assets at amortised cost – debt and other instrument	**(109,017,140)**	(94,261,299)	**(109,529,470)**	(94,172,565)
Proceeds from the sale and maturity of financial investments	**–**	–	**–**	–
Other assets	**11,884,067**	(4,185,579)	**11,896,995**	(4,034,303)
	(193,524,215)	(114,421,548)	**(195,163,845)**	(119,962,429)
Increase/(decrease) in operating liabilities				
Due to bank	**(22,288,937)**	(42,196,267)	**(22,912,312)**	(48,579,868)
Derivative financial instrument	**–**	(1,533)	**–**	(1,533)
Financial liabilities at amortised cost – due to depositors	**221,909,528**	170,677,338	**223,397,260**	169,738,473
Financial liabilities at amortised cost – due to debt securities holders	**–**	–	**–**	–
Financial liabilities at amortised cost – due to other borrowers	**(12,727,496)**	6,287,565	**(12,773,875)**	10,919,340
Debt securities issued	**–**	(25,677,100)	**–**	(25,413,114)
Other liabilities	**(138,401)**	(382,265)	**(140,530)**	1,698,978
	186,754,695	108,707,738	**187,570,543**	108,362,276
Net cash generated from operating activities before income tax	**14,065,803**	10,749,007	**14,290,315**	7,363,395
Income tax paid	**(2,889,044)**	(3,798,618)	**(3,271,758)**	(3,530,579)
Net cash (used in)/from operating activities	**11,176,759**	6,950,389	**11,018,557**	3,832,816

Statement of Cash Flow

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Cash flows from investing activities				
Purchase of property, plant and equipment	**(976,972)**	(1,242,701)	**(994,063)**	(1,246,470)
Proceeds from the sale of property, plant and equipment	**6,504**	14,804	**6,504**	14,808
Net (increase)/decrease in finance instruments at fair value through other comprehensive income	**(12,326,936)**	2,373,158	**(11,927,988)**	2,902,903
Proceeds from the sale and maturity of financial investments	**–**	–	**–**	–
Net purchase of intangible assets	**(389,202)**	(262,718)	**(395,250)**	(263,293)
Net purchase/improvement to investment properties	**–**	–	**–**	(333,315)
Net cash flow from acquisition of investment in subsidiaries and associates	**–**	(3,111,000)	**–**	–
Dividends received from investment in subsidiaries and associates	**170,000**	–	**–**	–
Net cash (used in)/from investing activities	**(13,516,606)**	(2,228,457)	**(13,310,796)**	1,074,633
Cash flows from financing activities				
Net proceeds from the issue of subordinated debt	**5,000,000**	–	**5,000,000**	–
Repayment of subordinated debt	**–**	–	**(92,454)**	–
Interest paid on subordinated debt	**(780,000)**	(780,000)	**(817,007)**	(780,000)
Contribution to consolidated fund-dividend/levy	**(1,000,000)**	(2,000,000)	**(1,000,000)**	(2,000,000)
Net cash from financial activities	**3,220,000**	(2,780,000)	**3,090,539**	(2,780,000)
Net increase/(decrease) in cash and cash equivalents	**880,153**	1,941,932	**798,300**	2,127,449
Cash and cash equivalents at the beginning of the year	**5,293,907**	3,351,975	**5,482,007**	3,354,558
Exchange difference in respect of cash and cash equivalent	**–**	–	**–**	–
Cash and cash equivalents at the end of the year	**6,174,060**	5,293,907	**6,280,307**	5,482,007
Reconciliation of cash and cash equivalents				
Cash in hand	**1,901,551**	941,102	**1,906,210**	947,240
Balances with banks	**4,590,397**	4,436,403	**4,692,371**	4,618,378
Money at call and short notice	**112**	–	**112**	–
Balances with Central Bank	**–**	–	**6**	58
Due to banks	**(318,000)**	(83,598)	**(318,391)**	(83,669)
	6,174,060	5,293,907	**6,280,307**	5,482,007

The Notes to the Financial Statements disclosed on pages 144 to 282 are integral parts of these Financial Statements.

Notes to the Financial Statements

1 Reporting Entity

1.1 Corporate Information

National Savings Bank (NSB) is a licensed specialised Bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. It is a licensed specialised bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is located at No. 255, "Savings House", Galle Road, Colombo 03, Sri Lanka.

The staff strength of the Bank as at 31 December 2020 was 4,641. (2019 – 4,715)

The Bank possesses 259 Branches, 289 ATMs and 72 CRMs of its Service Outlets and 653 Post Offices and 3,410 Sub-Post Offices as its agency network.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2020 comprise of the Bank (Parent) and its two fully-owned Subsidiaries, NSB Fund Management Co. Ltd.., and Sri Lanka Savings Bank Limited.

The Bank is fully owned by the Government of Sri Lanka. The Bank is the ultimate parent of the Group. The Financial Statements of the Bank and its Subsidiaries have a common financial year which ends on 31 December. The Financial Statements of the "Bank" and the "Group" are prepared for the 12 months period ended 31 December each year to be tabled in Parliament.

1.3 Principal Activities and Nature of Operations

Bank

The principal activities of the Bank continued to be the promotion of savings among the people of Sri Lanka and profitable investment of savings so mobilised. NSB is providing wide range of solutions such as accepting deposits, corporate and retail credit, trade financing, loan to Government Project, pawning, internet banking, sms banking etc. As per the National Savings Bank Act No. 30 of 1971, the Bank is required to invest in Government Securities a minimum of 60% out of its deposits.

Subsidiaries

NSB Fund Management Co. Ltd.

NSB Fund Management Co. Ltd.., acts as a primary dealer and engaged in dealing in Government Securities.

Sri Lanka Savings Bank Limited

During the year, the principal activities of the Bank were mobilising savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

2 Accounting Policies

The accounting policies set out below have been applied consistently in all periods when presenting the Financial Statements, unless otherwise indicated. These policies of the Bank are also consistently applied by the Group where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Consolidated Financial Statement of the Group and the separated Financial Statements of the Bank which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) issued by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting.

The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

2.1.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the National Savings Bank Act No. 30 of 1971 and amendments thereto and the Sri Lanka Accounting Standards.

2.1.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank and the Group for the year ended 31 December 2020 were approved on 19 March 2021, by the Board of Directors.

2.1.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position, which are measured at fair value.

(i) Financial assets measured at Fair Value Though Other Comprehensive Income, (Note 23).

(ii) Derivative financial instruments, (Notes 19 and 33).

(iii) Financial assets and liabilities recognised through profit or loss (Notes 20 and 34).

(iv) Financial assets and liabilities designated at fair value through profit or loss, (Note 20).

(v) Land and buildings which are measured at cost at the time of acquisition subsequently measured at revalued amounts, which are the fair values at the date of revaluation, (Note 26).

(vi) Liability for employee defined benefits obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets, (Note 38).

2.1.5 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the currency of the primary economic environment in which Group operates and all values are rounded to the nearest thousand rupees, unless indicated otherwise. There was no change in the Group's presentation and functional currency during the year under review.

2.1.6 Presentation of Financial Statements

The assets and liabilities of the Bank and the Group presented in the Statement of Financial Position are grouped by their nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustment has been made for inflationary factors affecting the Financial Statements. An analysis of maturity patterns of assets and liabilities of the Bank and the Group is presented in Note 55 on pages 273 to 276.

2.1.7 Going Concern

The Board of Directors/Management of the Bank has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements are prepared on the going concern basis.

2.1.8 Materiality and Aggregation

Each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements".

2.1.9 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The comparative information is reclassified where necessary for the better presentation and to conform to the current year's presentation. Comparative information is presented in Note 53 on page 243.

2.1.10 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" (LKAS 1).

2.1.11 Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position (SOFP), only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.1.12 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Bank and the Group in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of estimation, critical judgements and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Bank and the Group are as follows:

A. Significant accounting judgement

Information about judgements made in applying Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.1.12.1 below.

2.1.12.1 Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Group provides scope for financial assets to be classified and measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVPL) based on the following criteria;

- The entity's business model for managing the financial assets as set out in Note 2.5.1.4.1 on page 150.
- The contractual cash flow characteristics of the financial assets as set out in Note 2.5.1.4.2 on page 150.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.1.12.2 to 2.1.12.9 below.

2.1.12.2 Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using the valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Methodologies used for valuation of financial instruments and Fair Value Hierarchy are described in more detail in Note 56 to the Financial Statements on page 277.

2.1.12.3 Impairment Losses on Financial Assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Lifetime expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;
- Determination of associations between macroeconomic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs), Exposure at Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.1.12.4 Revaluation of Property, Plant and Equipment

The freehold land and buildings of the Bank and the Group are reflected at revalued amounts. The Group engaged independent professional valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) "Fair Value Measurement".

The methods and key assumptions used to determine the fair value of the freehold land and buildings are further explained in Note 2.3 to the Financial Statements.

2.1.12.5 Useful Lifetime of Property, Plant and Equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.1.12.6 Impairment of Non-Financial Assets

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.1.12.7 Deferred Tax Asset

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.1.12.8 Defined Benefit Obligation

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

In determining the appropriate discount rate, management considers yield of a high-quality corporate bond similar to the remaining weighted average duration of the pension fund. If matching high quality corporate bonds are not available in the market, similar tenure risk adjusted Government Bond yield has been used as the discount rate.

The mortality rate is based on publicly available mortality tables. Future salary increases, and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.1.12.9 Provisions, Commitments and Contingencies

The Group receives legal claims against it in the normal course of business. Management makes judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdiction.

2.2 Changes in Accounting Policies →

There is no major change in accounting policies during the year 2020.

2.2.1 Sri Lanka Accounting Standard (SLFRS 16) – Leases

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. This Standard supersedes the following Standard and Interpretations:

(a) LKAS 17 Leases;

(b) IFRIC 4 Determining whether an Arrangement contains a Lease;

(c) SIC-15 Operating Leases – Incentives; and

(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Set out below are the accounting policies of the Bank upon adoption of SLFRS 16, which have been applied from the date of initial application of 1 January 2019.

2.2.1.1 Identifying a Lease

A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Hence, at inception of a contract, Bank assesses whether the contract is, or contains, a lease by considering following aspects.

1. Availability of identified asset.
2. Bank's right to control the use of the identified asset.
3. Bank's right to obtain substantially all economic benefits from use of the identified asset.
4. Bank's right to direct the use of the identified asset.

Accordingly, Bank identifies all the Rent Agreements (except short-term agreements, less than 12 months and low value agreements) entered by the Bank for operating a branch and for using machineries contain a lease under SLFRS 16: Leases.

2.2.1.2 Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date as specified in the Lease Agreement). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2.2.1.3 Lease Liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. Calculating the present value of lease payments, the Bank uses the Treasury Bond rate (The tenure of the Treasury Bond should be identical to the lease term) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2.2.1.4 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. The Bank considers the leases of low value assets, if the value of the underlying asset is less than or equal to Rs. 1 Mn.

2.2.1.5 Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. The Group uses hindsight in determining the lease term where the contract contains options to extend or terminate the lease. Accordingly, Group identified the lease term as the number of years based on the period covered by the Rent Agreement signed by the Group and the lessor.

2.2.1.6 Measurement

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since the Group applies SLFRS 16 using the modified retrospective approach.

- the Group leaves comparatives as previously reported.
- any difference between asset and liability recognised in opening retained earnings at transition.
- measure ROU asset as if SLFRS 16 had been applied from lease commencement (but using discounting rate at date of transition).

Initial Measurement of the Right-of-Use Asset and the Lease Liability

The right-of-use (ROU) asset is initially measured at the present value of all the lease rentals adjusted to any advances made outstanding as at 01 January 2019. The lease liability is initially measured at the present value of the future lease rentals over the remaining lease period at commencement date.

Subsequent Measurement of the Right-of-Use Asset and the Lease Liability

After the commencement date the Bank measure the ROU asset applying a cost model. The assets are amortised to the balance lease term as at 1 January 2019, using the straight-line method. The lease liability subsequently measure by increasing with the lease interest and reducing with the lease payments.

Discount Rate

The lessee has to apply the incremental borrowing rate to discount the future rental payments. That is "The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment". The Group applies a single discount rate for leases with similar lease periods.

- **Separating Components of a Contract**
  The Group elects to consistently apply as a practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
- **Initial Direct Costs**
  The Group excludes the initial direct costs from the measurement of the right-of-use asset at the date of initial Application as a practical expedient.

2.3 Fair Value Measurement →

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would consider in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, if market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial assets and liabilities is provided in Note 56 on pages 277 to 282.

2.4 Significant Accounting Policies – General →

2.4.1 Basis of Consolidation

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiaries in terms of the SLFRS 10 – "Consolidated Financial Statements" and LKAS 27 – "Consolidated and Separate Financial Statements".

2.4.1.1 Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.4.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 47 on page 234.

2.4.1.3 Subsidiaries

The Financial Statements of the subsidiary is fully consolidated from the date on which control is transferred to the Bank and continued to be consolidated until the date when such control ceases. The Control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of the Bank's Subsidiary for the purpose of consolidation are prepared for the same reporting period as that of National Savings Bank, using consistent accounting policies.

2.4.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.4.1.5 Transactions Eliminated on Consolidation

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements. Refer Note 49.3 and 49.4 – transaction with subsidiary companies on pages 237 and 238.

2.4.2 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates on which the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Sri Lankan Rupees using the middle exchange rate ruling at that date. All exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they are initially recorded are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to functional currency using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Statement of Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The transactions of the Foreign Currency Banking Unit have been recorded in accordance with the above policy and the resulting gains/ losses are recognised in the Income Statement.

2.5 Significant Accounting Policies – Recognition of Assets and Liabilities →

Financial Instruments

SLFRS 9 – "Financial Instrument" replaces LKAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

2.5.1 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

2.5.1.1 Date of recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to depositors when funds are transferred to the Bank. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

2.5.1.2 Recognition and Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.1.4.1 and 2.5.1.4.2

Financial instruments are initially measured at their fair value (as defined in Note 56), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank and the Group accounts for the Day 1 profit or loss, as described below.

2.5.1.3 "Day 1" Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is derecognised the difference between transaction price and fair value is recognised in income statement. The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest Income and Personnel Expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.5.1.4 Classification and Subsequent Measurement of Financial Assets

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair Value though Other Comprehensive Income (FVOCI),
- Fair Value through Profit or Loss (FVPL)

The Bank and the Group classifies and measures its derivative and trading portfolio at FVPL as explained in Note 2.5.1.6. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

2.5.1.4.1 Business model assessment

The Bank and the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel,
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed,
- How managers of the business are compensated, (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment,

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.5.1.4.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Refer Notes no 2.5.1.4.3 to 2.5.1.4.5 below for details on different types of financial assets recognised on the Statement of Financial Position.

2.5.1.4.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are given below.

(a) Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 16 on page 177.

(b) Balances with central banks

Details of "Balances with central banks" are given in Note 17 on page 177.

(c) Placement with banks

Details of "Placement with banks" are given in Note 18 on page 177.

(d) Financial assets at amortised cost – Loan and advances

Details of "Loan and advances" are given in Note 21 on page 183.

(e) Financial assets at amortised cost – Debt and other instruments

Details of "Debt and other instruments" are given in Note 22 on page 192.

2.5.1.4.4 Financial assets measured at FVOCI

Financial assets measured at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

Financial assets measured at FVOCI are given in Notes (a) and (b) below.

(a) Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding.

Details of "Debt instruments at FVOCI" are given in Note 23 on pages 194 to 197.

(b) Equity instruments designated at FVOCI

Upon initial recognition, the Group elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 23 on pages 194 to 197.

2.5.1.4.5 Financial assets measured at FVPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in below.

(a) Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned is accrued in "Interest Income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

The Group do not have any designated financial assets upon initial recognition as fair value through profit or loss as at the end of the reporting period.

2.5.1.5 Classification and Subsequent Measurement of Financial Liabilities

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
  - Held-for-trading; or
  - Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification. SLFRS 9, largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

2.5.1.5.1 Financial liabilities at fair value through profit or loss

The Group do not have any designated financial liabilities as at fair value through profit or loss as at the end of the reporting period.

2.5.1.5.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Due to debt securities holders", "due to other borrowers", or "Debt security issued" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR (Effective Interest Rate) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

(a) Due to banks

Details of "Due to banks" are given in Note 32 on page 213.

(b) Due to depositors

Details of "Due to depositors" are given in Note 35 on page 214.

(c) Due to debt securities holders

Details of "Due to debt securities holders" are given in Note 35 on page 214.

(d) Due to other borrowers

Details of "Due to other borrowers" are given in Note 35 on page 214.

(e) Debt security issued

Details of "Debt security issued" are given in Note 37 on page 216.

2.5.1.6 Derivative asset and liabilities

Derivative assets and liabilities are broadly classified into derivatives recorded at fair value through profit or loss and derivatives held for risk management purposes.

2.5.1.6.1 Derivative recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the "underlying").
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, credit default swaps, cross-currency swaps, forward foreign exchange contracts and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 19. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 19 on pages 178 and 179.

2.5.1.6.2 Derivative held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the SOFP.

2.5.1.6.2.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss in the same line item as the hedged item that is attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life. The Group do not have any fair value hedge as at the end of the reporting period.

2.5.1.6.2.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated. The Group do not have any cashflow hedge as at the end of the reporting period.

2.5.1.6.3 Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

As per SLFRS 9, Derivatives may be embedded in another contractual arrangement (a host contract).
The Group treats derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives if:

- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

As at the reporting date the group do not have embedded derivatives.

2.5.1.7 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.5.1.7.1 Measurement of reclassification of financial assets

2.5.1.7.1.1 Reclassification of Financial Instruments at "Fair value through profit or loss"

- **to Fair value through other comprehensive income**
  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.
- **to Amortised Cost**
  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

2.5.1.7.1.2 Reclassification of Financial Instruments at "Fair value through other comprehensive income"

- **to Fair value through profit or loss**
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- **to Amortised Cost**
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

2.5.1.7.1.3 Reclassification of Financial Instruments at "Amortised Cost"

- **to Fair value through other comprehensive income**
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- **to Fair value through profit or loss**
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Bank and the Group do not have any reclassification of financial instrument for the reporting period.

2.5.1.8 Derecognition of financial assets and financial liabilities

2.5.1.8.1 Financial assets

The Group derecognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less and new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities as per SLFRS 9. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

2.5.1.8.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

2.5.1.9 Modification of financial assets and financial liabilities

2.5.1.9.1 Financial Assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

2.5.1.9.2 Financial Liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.5.1.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Bank and the Group do not offset any financial instrument for the reporting period.

2.5.1.11 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

2.5.1.12 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 2.3 and 56 on pages 148 and 277.

2.5.2 Impairment of Financial Assets

2.5.2.1 Individual assessment of impairment

For financial assets above a predetermined threshold (i.e. for individually significant financial assets), if there is objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred).

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable. Detail of Individual assessment of impairment are given in Note 21. (d) on page 185.

2.5.2.2 Individually Significant Assessment and Not Impaired Individually

Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination.

While establishing significant credit deterioration, the Bank will consider the following criterias:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet its obligation.
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, Decrease in Asset quality, Increase in gearing, liquidity management problems.
- Significant increase in credit risk on other financial instruments of the same borrower.
- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

2.5.2.3 Overview of the ECL principles

From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 2.5.2.7 on page 156.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1

- When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, but not originally credit impaired on initial recognition and the loan has been reclassified from Stage 2.

Stage 2

- When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9.

Stage 3

- Credit facilities where contractual payments of a customer are more than 90 days past due, subject to the rebuttable presumption as stated in SLFRS 9.
- All restructured loans, which are restructured more than twice.
- All rescheduled loans.
- All credit facilities/customers classified as non-performing as per CBSL Directions.
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/or when there is a two-notch downgrade in the bank's internal rating system.
- Credit facilities/customers in which Significant Increase in Credit Risk (refer Note 2.5.2.7).

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.5.2.4 The calculation of ECL

The Group calculates ECL to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **Probability of Default (PD)**
  The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **Exposure at Default (EAD)**
  The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.
- **Loss Given Default (LGD)**
  The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3

For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2.5.2.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the SOFP, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets. Bank and the Group do not have any debt instrument measured at fair value through OCI subject to impairment as at reporting period.

2.5.2.6 Forward-looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Inflation rates
- Exchange rates
- Interest rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2.5.2.7 Significant Increase in Credit Risk

The Group continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis based on the Bank's historical experience and expert credit assessment and including forward-looking information. Accordingly, the Group considers the significant increase in credit risk when one of the following factors/ conditions are met.

- When contractual payments of a customer are more than 30 days past due (subject to the rebuttable presumption in the SLFRS 9)
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency
- Restructured facilities
- Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list.
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument;
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility;
- Frequent changes in the Senior Management of an institutional customer

- Delay in the commencement of business operations/projects by more than two years from the originally agreed date;
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.;
- When the customer is deceased/ insolvent
- When the Bank is unable to contact or find the customer
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year; and
- Erosion in net-worth by more than 25% when compared to the previous year.

2.5.2.8 Definition of default and credit impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

2.5.3 Property, Plant and Equipment (PPE)

Details of Property, Plant and Equipment are given in Note 26 on page 200.

2.5.3.1 Depreciation

Details of "Depreciation" are given in Note 26 on page 200.

2.5.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs", the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur. Bank and the Group do not capitalise any borrowing cost for the reporting period.

2.5.4 Intangible Assets

Details of intangible assets are given in Note 29 on page 209.

2.5.5 Impairment of Non-Financial Assets

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.5.6 Retirement Benefit Obligation

2.5.6.1 Defined Benefit Pension Plans

2.5.6.1.1 Staff Pension Fund - I

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit pension plan-I is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2020, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2020 are as follows:

Interest/Discount rate	8.00 % p.a.
Increase in cost of living allowances	4.50 % p.a.
Increase in average basic salary	6.50% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension I as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff Pension Fund I are given in Note 38.(a).1 on pages 220 to 222.

2.5.6.1.1.1 Un-Funded Pension Liability – Staff Pension Fund - I

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2020 indicated a past service cost deficit of Rs. 7,049 Mn. which has been provided in full.
The details of Unfunded Pension Liability are given in Note 38.(a).1 on pages 220 to 222.

2.5.6.1.2 Staff Pension Fund – II

The Bank established and operates a defined benefit pension plan, for the permanent staff members who have joined the Bank on or after 1 October 1995, which requires the Bank to monthly contribute 12% of members' gross salary to a separately administered fund. The cost of providing benefits under the defined benefit pension plan is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2020, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2020 are as follows:

Interest/Discount Rate	8.50% p.a.
Increase in Cost of Living Allowances	4.50% p.a.
Increase in Average Basic Salary	6.50% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension II as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff Pension Fund II are given in Note 38. (a). 2 on pages 223 to 225.

2.5.6.1.2.1 Un-Funded Pension Liability – Staff Pension Fund – II

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2020 indicated a past service cost deficit of Rs. 316 Mn. which has been provided in full. The details of Unfunded Pension Liability are given in Note 38.(a).2 on pages 223 to 225.

2.5.6.1.3 Widows'/Widowers' and Orphans Pension Fund

Effective from 2013 December, the Bank has established a "Widows'/Widowers' and Orphans" Pension Scheme for the members of Pension scheme - II. Members of Pension Scheme II are opting for be members of the Widows'/ Widowers' and Orphans Pension Scheme. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary, to the Fund.

2.5.6.2 Gratuity

With the establishment of Staff Pension Scheme II, employees who joined the Bank on or after 1 October 1995 become members of the Pension Scheme II, thus they are not entitle to the rights and privileges under Service Gratuity Scheme. However, a minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this pension scheme. Therefore, employees who retire before 10 years of service and whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of half of the gross salary applicable to the last month of the financial year, for each year of continuous service.

Probability of occurrence of such event is rare according to management's judgement and past experiences. A gratuity provision is not maintained in the Financial Statements unless a significant liability is estimated at reporting date. Where a gratuity is paid to an employee in such event under Payment of Gratuity Act No. 12 of 1983, it is recognised as a gratuity expense in the Income Statement in the same year.

2.5.6.3 Post-Employment Medical Benefits

The Bank has a contributory medical assistance scheme for the retired employees. The assets of the plan are held independently of the Bank's assets and administered by Boards of Trustees, representing the management and the employees, as provided in the trust deed of the fund. The cost of providing benefits under the defined benefit pension plan is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The Bank contributes to the contributory medical scheme an amount determined by the Management of the Bank based on actuarial recommendation made from time to time. Accordingly, a sum of Rs. 302.3 Mn. has been provided from the profit of 2020.

The latest actuarial valuation was carried out as of 31 December 2020, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2020 are as follows:

Interest/Discount Rate	8.00% p.a.
Medical cost inflation rate	4.50% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension II as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of post-employment medical benefits are given in Note 38. (a). 3 on page 226.

2.5.6.3.1 Unfunded Liability – Post-Employment Medical Benefits

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2020 indicated a past service cost deficit of Rs. 3,520 Mn. which has been provided in full. The details of Unfunded Liability are given in Note 38.(a).3 on pages 226.

2.5.6.4 Defined Contribution Plans

Details of defined contribution plans are given in Note 11 on page 168.

2.5.7 Other Liabilities

Details of other liabilities are given in Note 41 on page 230.

2.5.8 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement.

2.5.8.1 Provision for Fraudulent Withdrawals

The total value of fraudulent withdrawals identified as at 31 December 2020 was Rs. 77.8 Mn. A provision of Rs. 75.5 Mn. already exists in the account.

2.5.9 Contingent Liabilities and Commitments

This includes Bank guarantees, letter of credit, undrawn credit facilities, other indirect credit facilities and capital commitment. The Bank guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Undrawn loan commitments and Letters of Credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with prespecified terms to the customer.

Effective from 1 January 2018, these contracts are subject to the assessment of impairment under SLFRS 09. Details of contingent liabilities and Commitments are given in Note 48 on pages 234.

2.5.10 Earnings Per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 14 on pages 173.

2.6 Significant Accounting Policies - Recognition of Income and Expenses for Financial Instruments →

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "income and expenses" are given in Notes 3 to 14 on pages 161 to 173.

2.6.1 Interest Income and Expenses

Details of "interest income and expenses" are given in Note 3 to 4 on pages 161 to 163.

2.6.2 Fee and Commission Income

Details of "Commission income and expenses" are given in Note 5 on pages 163 and 164.

2.6.3 Net Trading Income

Details of "Net gains/ (losses) from trading" are given in Note 6 on page 165.

2.6.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of "Dividend income" is given in Note 9 on page 166.

2.6.5 Rent income

Rent income is recognised in profit or loss on an accrual basis. Details of "Rent income" is given in Note 09 on pages 166.

2.7 Significant Accounting policies - Taxation →

2.7.1 Current Taxation

Details of Current taxation are given in Note 13 on page 171.

2.7.2 Deferred Taxation

Details of Deferred taxation are given in Notes 13 and 30 on pages 171 and 211 respectively.

2.7.3 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

VAT on financial services is payable at 15% on operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation.

2.7.4 Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax (Amendment) Act No. 10 of 2014. NBT on financial services is payable at 2% on same base subjected to value added tax on financial services. Effective from 1 December 2019 NBT was abolished by Government.

2.7.5 Debt Repayment Levy on Financial Services (DRL)

The New Finance Act No. 35 of 2018 has imposed a new tax termed the "Debt Repayment Levy" (DRL) which is a temporary levy (From 1 October 2018 to 31 December 2021) charged on banks and financial institutions as indicated in the Budget 2018. DRL on financial services is payable at 7% on same base subjected to value added tax on financial services. Effective from 1 January 2020 DRL was abolished by Government.

2.7.6 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and subsequent amendments there to, ESC is payable on liable gross turnover of the Bank at 0.5% and is deductible from the income tax payments. Unclaimed ESC can be carried forward and set off against the income tax payable in the two subsequent years. As approved by the cabinet and instructed by the ministry of Finance, ESC has been abolished with effect from 1 January 2020.

2.8 Statement of Cash Flows →

The Statement of Cash Flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short-term, highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice. The Statement of Cash Flows is given on page 142.

2.9 Regulatory Provisions →

2.9.1 Deposit Insurance Scheme

The Bank calculates the insurance premium on eligible deposit base at the rate of 0.10% which is the applicable statutory rate based on capital adequacy ratio of the Bank. The Bank has remitted the applicable premium within a period of 15 days from the end of each quarter as stipulated by the Direction.

2.9.2 Crop Insurance Levy (CIL)

As per the provisions of the section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

2.10 Events after the reporting period →

Details of events after reporting date are given in Note 52 on page 242.

2.11 Accounting Standards Issued but not yet Effective as at Reporting Date →

The following new accounting standards and amendments/ improvements to the existing standards were issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted these new standards/ amendments when preparing these consolidated Financial Statements.

2.11.1 Interest Rate Benchmark Reform (IBOR) (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)

IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Group. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. The Group is in the process of assessing the impact of the new standard on its Financial Statements.

2.11.2 Amendments to SLFRS 16 – COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

This amendment is not expected to have a material impact on the Financial Statements of the Group/Bank in the foreseeable future.

3 Gross income

Accounting policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Interest income	**122,512,049**	118,729,784	**124,608,182**	120,351,774
Fee and commission income	**2,710,487**	1,261,268	**2,723,087**	1,269,521
Net gain/(loss) from trading	**1,273,676**	1,491,610	**1,745,329**	1,963,229
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	**–**	–	**–**	–
Net gains/(losses) from derecognition of financial assets	**241,284**	22,021	**241,284**	22,021
Net other operating income	**809,564**	424,376	**721,612**	2,203,626
Gross income	**127,547,060**	121,929,059	**130,039,494**	125,810,171

4 Net interest income

Accounting policy

Recognition of interest income and interest expenses

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as fair value through other comprehensive Income and financial instruments measured at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income for financial assets and interest expense for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

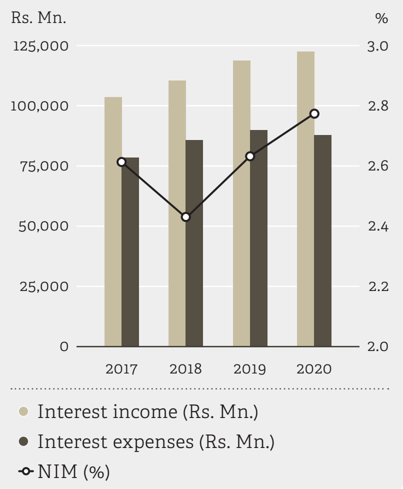
When calculating the EIR for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Net interest income (contd.)

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
4. (a) Interest income →				
Cash and cash equivalents	**45,288**	39,263	**47,754**	39,263
Balances with central banks	**–**	–	**–**	–
Placements with banks	**670,783**	1,416,393	**1,014,739**	1,530,935
Derivative financial instruments	**–**	–	**–**	–
Financial assets recognised through profit or loss				
– Measured at fair value	**746,742**	1,051,706	**1,686,296**	1,908,594
– Designated at fair value	**–**	–	**–**	–
Financial assets at amortised cost				
– Loans and advances	**50,453,489**	58,097,923	**50,683,407**	58,186,998
– Debt and other instruments	**70,275,947**	58,021,604	**70,740,943**	58,477,881
Financial assets measured at fair value through other comprehensive income	**319,800**	102,895	**435,042**	208,103
Total interest income	**122,512,049**	118,729,784	**124,608,182**	120,351,774
4. (b) Interest expenses →				
Due to banks	**1,500,550**	4,482,281	**1,745,125**	4,655,295
Financial liabilities recognised through profit or loss	**–**	–	**–**	–
Financial liabilities at amortised cost				
– Due to depositors	**82,272,680**	79,645,008	**82,207,530**	79,615,032
– Due to debt securities holders	**–**	–	**–**	–
– Due to other borrowers	**771,380**	2,691,377	**1,395,577**	3,513,319
Debt securities issued	**3,077,258**	3,079,104	**3,077,258**	3,084,493
Total interest expenses	**87,621,868**	89,897,770	**88,425,490**	90,868,139
Net interest income	**34,890,181**	28,832,014	**36,182,692**	29,483,635

Interest income vs interest expense Graph 40



4. Net interest income (contd.)

4. (c) Net interest income from Sri Lanka Government Securities

Interest income and interest expenses on Government Securities given below have been extracted from interest income and interest expenses given in Notes 4. (a) and 4. (b) respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Interest income				
Financial assets recognised through profit or loss				
– measured at fair value	**746,742**	1,051,706	**1,680,925**	1,908,595
– designated at fair value	**–**	–	**–**	–
Financial assets at amortised cost				
– loans and advances (Securities purchased under resale agreements)	**365,666**	249,813	**365,666**	249,813
– debt and other instruments	**66,105,095**	56,465,866	**66,561,963**	56,912,554
Financial assets measured at fair value through other comprehensive income	**319,800**	102,895	**435,042**	208,103
	67,537,303	57,870,281	**69,043,597**	59,279,065
Less: Interest expenses				
Due to banks (Securities sold under repurchase agreements)	**1,041,680**	3,678,530	**1,286,255**	3,862,403
Due to other borrowers (Securities sold under repurchase agreements)	**771,380**	2,703,823	**1,406,036**	3,540,676
	1,813,060	6,382,353	**2,692,291**	7,403,079
Net interest income from Sri Lanka Government Securities	**65,724,243**	51,487,927	**66,351,306**	51,875,986

4. (d) Debt Moratorium and Deferment impact to Interest Income

The bank has given its debt moratorium and payment deferment to all of its customers other than who refused to have debt moratorium or payment deferments. The moratorium has been given at the concessionary rate of seven percent and the payments are deferred until the end of the loan period. The moratorium period has been varied from two months to six months and in a very limited scenario it has been extended to more than six months.

If the interest has been collected at the contratual rate, Bank could have earned Rs. 4,805 Mn. during the financial year. However, at 7% concessionary rate bank has recorded Rs. 2,585 Mn interest income on accrued basis and agree to collect at the end of loan tenor. Therefore bank further incured Day one loss on interest income Rs. 1,391 Mn. on Day one. In agrregate bank incured total loss of Rs. 3,611 Mn. due to moratorium imposed by CBSL.

5 Net fee and commission income

Accounting policy

The Group earns fee and commission income from range of services it provides to customers which can be divided into the following two categories.

(a) Fee and commission income earned from services that are provided over a certain period of time:
Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b) Fee and commission income from providing transaction services:

5. Net fee and commission income (contd.)

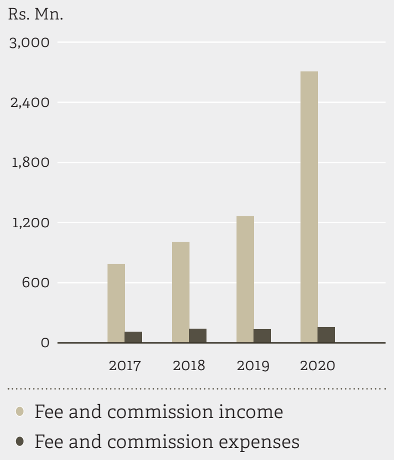
Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Fee and commission income	**2,710,487**	1,261,268	**2,723,087**	1,269,521
Fee and commission expenses	**(154,486)**	(131,954)	**(160,556)**	(136,838)
Net fee and commission income	**2,556,001**	1,129,314	**2,562,531**	1,132,683
Comprising				
Loans	**2,491,151**	1,070,717	**2,494,441**	1,071,091
Cards	**5,530**	(10,320)	**5,530**	(10,320)
Trade and remittances	**–**	–	**–**	–
Corporate banking	**9,937**	19,672	**9,937**	19,673
Deposits	**27,964**	26,743	**27,964**	26,752
Guarantees	**7,528**	8,778	**7,650**	8,778
Others	**13,891**	13,724	**17,009**	16,709
Net fee and commission income	**2,556,001**	1,129,314	**2,562,531**	1,132,683

Fee and commission income vs expense

Graph 41



6 Net gain/(loss) from trading

Accounting policy

Net trading income includes all gains and losses and related dividend for "financial assets recognised through profit or loss" other than interest income and include income from foreign exchange.

Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Foreign exchange				
From banks	**–**	–	**–**	–
From other customers	**211,796**	140,567	**211,796**	140,567
Fixed income securities	**578,353**	1,178,660	**1,050,006**	1,650,279
Equity securities	**445,637**	156,797	**445,637**	156,797
Derivative financial instruments	**37,889**	15,586	**37,889**	15,586
Total	**1,273,676**	1,491,610	**1,745,329**	1,963,229

7 Net fair value gains/(losses) from financial instruments at fair value through profit or loss

Accounting policy

Net fair value gains/(losses) includes all unrealised gains and losses from changes in fair value of "financial assets and financial liabilities recognised through profit or loss".

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Gains on financial assets at fair value through profit or loss	**–**	–	**–**	–
Losses on financial assets at fair value through profit or loss	**–**	–	**–**	–
Gains on financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Losses on financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Total	**–**	–	**–**	–

8 Net gains/(losses) from derecognition of financial assets

Accounting policy

"Net gains/(losses) from derecognition of financial assets" comprise gains less losses related to financial assets measured at fair value through other comprehensive income and derecognised asset at amortised cost.

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Recognised at:				
Fair value through profit or loss	–	–	–	–
Amortised cost	–	–	–	–
Fair value through other comprehensive income	**241,284**	22,021	**241,284**	22,021
Total	**241,284**	22,021	**241,284**	22,021

9 Net other operating income

Accounting policy

i. Gain/(Loss) on disposal of property, plant and equipment

The gains or losses on the disposal of property, plant and equipment is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of disposal costs. This is recognised in other operating income in the year in which significant risks and rewards of ownership are transferred to the buyer.

ii. Foreign exchange gain/(loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in exchange rates are included in Income Statement in the period in which they arise.

iii. Dividend income

Dividend earned from financial assets measured at fair value through other comprehensive income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Gain/(Loss) on investment properties	–	–	**53,762**	–
Gain/(Loss) on sale of property, plant and equipment	**593**	11,432	**593**	11,436
Gain/(Loss) on revaluation of foreign exchange	**185,750**	77,838	**185,750**	77,838
Recovery of loans written off	–	–	**14,831**	–
Less: Loans written off	–	–	–	–
Dividend income	**421,681**	218,717	**252,993**	218,717
Rent income	**21,158**	15,842	**21,158**	14,143
Other income	**180,382**	100,547	**192,525**	232,002
Gain from Bargain purchase*	–	–	–	1,649,490
Total	**809,564**	424,376	**721,612**	2,203,626

*Bank has paid Rs. 3,111 Mn. to acquire 100% ownership of Sri Lanka Savings Bank (SLSB) on 11 October 2019. Net asset of the SLSB as at acquired date was Rs. 4,760.49 Mn. and NSB has recognised difference as "gain from bargain purchased" in 2019.

10 Impairment charges

Accounting policy

The Group recognise the changes in the impairment provisions for all financial instruments, which are assessed as per Sri Lanka Financial Reporting Standard – SLFRS 9 on "Financial Instrument". The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The methodology adopted for impairment is explained in Note 21 (d) to the Financial Statements.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Impairment charge (Note 10.1)	**4,847,692**	549,912	**4,906,764**	575,076
Loan write off/waive off	**12,358**	15,624	**12,358**	15,624
Other write off	**13,718**	–	**13,718**	–
Total	**4,873,768**	565,536	**4,932,840**	590,700

10.1 Impairment charges

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Cash and cash equivalents				
Stage 1	**(692)**	563	**(696)**	567
Placement with banks				
Stage 1	**(275)**	(1,035)	**1,408**	(275)
Financial assets at amortised cost – loans and advances [Note 21 d)]				
Stage 1	**1,346,820**	(9,458)	**1,351,953**	11,876
Stage 2	**626,810**	(1,347)	**659,654**	(1,476)
Stage 3	**2,751,251**	431,437	**2,770,675**	434,631
Financial assets at amortised cost – debt and other instruments [Note 22 (b)]				
Stage 1	**92,711**	(471)	**92,705**	(470)
Stage 2	**(4,162)**	5,852	**(4,162)**	5,852
Stage 3	**–**	–	**–**	–
Financial assets measured at fair value through other comprehensive income [Note 23 (b)]	**–**	–	**–**	–
Contingent liabilities and commitments (Note 48)	**–**	–	**–**	–
Investments in subsidiaries [Note 24 (d)]	**–**	–	**–**	–
Investments in associates and joint ventures (Note 25)	**–**	–	**–**	–
Property, plant and equipment (Note 26)	**35,228**	–	**35,228**	–
Investment properties (Note 28)	**–**	–	**–**	–
Others (Note 31.1)	**–**	124,372	**–**	124,372
Total	**4,847,692**	549,912	**4,906,764**	575,076

10. Impairment charges (contd.)

10.2 Impact due to the COVID–19 to Impairment Charges

The COVID–19 pandemic has had, and continues to have, a material impact on businesses locally and globally. There are a number of factors associated with the pandemic and its impact on global and local economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of the Bank. The Bank has calculated Probability of Default (PD) as at 31 December 2020 and Economic Factor Adjustment (EFA) is calculated using CBSL projection and increase the worst-case scenario (10%) to reflect the adverse impact to the economy based on management judgement. As a result the bank applies higher EFA compare to 2019.

The first-time payment deferrals were offered at the end of March shortly after lockdown rules went into effect and little information about the circumstances of customers was available. The extensions are being offered after more time has passed and additional data is now available to make further assessment of customers making use of payment holidays. The assessment has been conducted at individual level and collective exposure level. The bank has carried out below steps to assess the impairment for debt moratorium given to customers.

a. Customer having a temporary income reduction or prolonged (go beyond one year) financial distress and expected recovery time and point
b. Historical payment pattern of the borrowers (frequent defaulters)
c. Information gathered from customers at the time of requesting for payment deferments
d. Application of management judgment

ECLs may be adversely impacted by increased levels of default for exposures in certain sectors directly impacted by the COVID–19 pandemic (such as the travel and tourism, aviation, hospitality and leisure, transport, consumer durables, motor vehicle, entertainment sectors).

All the Corporate clients were assessed individually based on their historical payment patterns, Covid–19 economic impact to their sector and geographical area, expected recovery of the sector, financial strength of the entity, government and CBSL support, and other holistic factors. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

The portfolio level impairment assessment was carried out for the individual borrowers. However, in some scenario's management judgment was used to assess the reasonableness of the customer request of prolonged debt moratorium or deferment. The borrowers were allocated between stages based on their sector and management judgement. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment).

11 Personnel expenses

Accounting policy

i Defined contribution plans

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

(a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

Subsidiary Companies and its employees contribute 12% and 8% respectively to the Employees Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

11. Personnel expenses (contd.)

(b) Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

ii Defined benefit plans

Contribution to defined benefit plans are recognised in the Income Statement based on an independent actuarial valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard LKAS – 19 on "Employee Benefits".

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Salary and bonus	**7,758,229**	8,274,021	**7,918,431**	8,317,516
Contributions to defined contribution plans	**762,496**	736,058	**778,724**	746,725
Contributions to defined benefit plans [Note (11. a, b, c, d) and (38)]	**1,220,620**	851,466	**1,227,783**	855,599
Share based expenses	**–**	–	**–**	–
Others	**225,441**	296,381	**227,547**	298,138
Total	**9,966,786**	10,157,926	**10,152,485**	10,217,978

11. (a) Contribution – Staff pension fund – I →

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Amount recognised as expense	**489,286**	400,483	**489,286**	400,483

The latest actuarial valuation was carried out as of 31 December 2020, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. (Refer Note 38. (a) 1 on page 220)

11. (b) Contribution – Staff pension fund – II →

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Amount recognised as expense	**429,015**	263,549	**429,817**	264,257

Pension scheme II has been established for the employees who joined the Bank on or after 1 October 1995. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020. (Refer Note 38. (a) 2 on page 223)

11. (c) Contribution – Retired staff medical scheme →

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Amount recognised as expense	**302,320**	187,434	**302,320**	187,434

11. Personnel expenses (contd.)

Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020. (Refer Note 38. (a) 3 on page 226)

11. (d) Contribution – Gratuity

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Amount recognised as expense	**–**	–	**6,360**	3,425

The staff members of the subsidiary companies are not entitled for pension scheme and hence they are continue to the members of Gratuity plan as per the provision of Gratuity Act No. 12 of 1983. (Refer Note 38. (a) 4 on page 228)

12 Other expenses

Accounting policy

Other operating expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit of the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses of depreciation and amortisation of property plant and equipment and intangible assets are separated from other expenses and disclosed in the face of Income Statement.

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Directors' emoluments	**2,350**	1,086	**5,984**	2,206
Auditors' remunerations	**5,014**	3,840	**7,745**	8,177
Non-audit fees to auditors	**–**	–	**–**	–
Professional and legal expenses	**23,331**	34,663	**31,776**	34,663
Operating lease expenses	**–**	–	**–**	–
Special fees paid to Treasury	**320,000**	320,000	**320,000**	320,000
Office administration and establishment expenses	**3,312,262**	3,484,954	**3,332,813**	3,496,756
Others	**595,350**	629,510	**615,050**	599,655
Total	**4,258,307**	4,474,053	**4,313,367**	4,461,457

13 Tax expenses

Accounting policy

As per Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 13. (a).

Deferred taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Current tax expenses				
Current year	**6,017,687**	3,798,619	**6,449,560**	4,096,283
Prior year's (over)/under provision	**–**	–	**659**	–
Deferred tax expenses				
Effect of change in tax rates	**–**	–	**–**	–
Temporary differences [refer Note 13 (b)]	**(480,978)**	281,849	**(480,284)**	282,348
Prior year's provision	**–**	–	**–**	–
Total	**5,536,709**	4,080,468	**5,969,936**	4,378,631
Effective tax rate (%)	**35.39**	39.00	**35.55**	33.45
Effective tax rate (excluding deferred tax) (%)	**38.46**	36.31	**38.41**	31.29

13.Tax expenses (contd.)

13. (a) Reconciliation of tax expenses

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Profit before tax	**15,644,625**	10,461,638	**16,791,054**	13,091,541
Income tax for the period (Accounting profit @ 28%)	**4,380,495**	2,929,259	**4,701,495**	3,665,632
Adjustment in respect of current income tax of prior periods				
Add: Tax effect of expenses that are not deductible for tax purposes	**2,853,538**	1,501,792	**2,926,713**	2,065,735
(Less) : Tax effect of expenses that are deductible for tax purposes	**739,430**	527,288	**749,332**	1,529,941
: Tax effect of exempt income	**476,916**	105,143	**429,316**	105,143
Tax expense for the period	**6,017,687**	3,798,620	**6,449,560**	4,096,283

13. (b) The deferred tax (credit)/charge in the Income Statement comprises the following:

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Deferred tax assets	**(621,711)**	317,062	**(621,711)**	316,797
Deferred tax liabilities	**140,733**	(35,213)	**141,427**	(34,449)
Deferred tax (credit)/charge to Income Statement	**(480,978)**	281,849	**(480,284)**	282,348

* As per the announcement dated 12 February 2020, income tax rate applicable for the Banking sector has been reduced to 24% with effect from 1 January 2020. However, as the said amendment is yet to be enacted, therefore income tax and deferred tax provisions were calculated at the rate of 28% for the year ended 31 December 2020.

Had the Bank considered the revised rate of 24% in the computation of current and deferred tax, the income tax charge recognised in the Income Statement would have decreased by Rs. 861 Mn. This includes a reversal of Rs. 851 Mn. against current tax expense and Rs. 9.5 Mn. against deferred tax. In addition, the deferred tax expense reversal to OCI would have reduced by Rs. 207 Mn.

14 Earnings per share

Accounting policy

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. The bank does not have dilutive potential ordinary shares as at 31 December 2020.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Net profit attributable to ordinary equity holders	**10,107,916**	6,381,170	**10,821,118**	8,712,910
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	**10,107,916**	6,381,170	**10,821,118**	8,712,910
Weighted average number of ordinary shares for basic earnings per share	**940,000**	940,000	**940,000**	940,000
Effect of dilution	**–**	–	**–**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**940,000**	940,000	**940,000**	940,000
Basic earnings per ordinary share	**10.75**	6.79	**11.51**	9.27
Diluted earnings per ordinary share	**10.75**	6.79	**11.51**	9.27

14. (a) Weighted average number of ordinary shares for basic and diluted earnings per share

	Outstanding number of shares		Weight average number of shares	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Number of shares in issue as at 1 January	**940,000**	940,000	**940,000**	940,000
Add: Number of shares issued during the year	**–**	–	**–**	–
Number of ordinary shares basic and diluted earnings per share	**940,000**	940,000	**940,000**	940,000

15 Analysis of financial instruments by measurement basis

Accounting policy

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" under headings of the Statement of Financial Position are summarised below:

15. (a) Bank – 2020

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	**6,491,963**	–	–	**6,491,963**
Balances with central banks	17	–	–	–	–
Placements with banks	18	**13,253,499**	–	–	**13,253,499**
Derivative financial instruments	19	–	**19,897**	–	**19,897**
Loans and advances	21	**516,795,160**	–	–	**516,795,160**
Debt instruments	20 , 22 and 23	**754,233,344**	**9,545,998**	**12,501,874**	**776,281,216**
Equity instruments	20 and 23	–	**1,675,748**	**2,769,948**	**4,445,696**
Total financial assets		**1,290,773,966**	**11,241,643**	**15,271,822**	**1,317,287,431**

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	**12,862,337**	–	**12,862,337**
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	**1,237,123,791**	–	**1,237,123,791**
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	**8,159,591**	–	**8,159,591**
Debt securities issued	37	**31,773,753**	–	**31,773,753**
Total financial liabilities		**1,289,919,472**	–	**1,289,919,472**

AC – Financial assets/liabilities measured at amortised cost
FVPL – Financial assets/liabilities measured at fair value through profit or loss
FVOCI – Financial assets measured at fair value through other comprehensive income

15. Analysis of financial instruments by measurement basis (contd.)

15. (b) Bank – 2019

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	5,376,715	–	–	5,376,715
Balances with central banks	17	–	–	–	–
Placements with banks	18	12,364,469	–	–	12,364,469
Derivative financial instruments	19	–	11,622	–	11,622
Loans and advances	21	454,394,957	–	–	454,394,957
Debt instruments	20 , 22 and 23	615,634,321	9,677,546	–	625,311,867
Equity instruments	20 and 23	–	1,782,337	3,478,811	5,261,148
Total financial assets		1,087,770,462	11,471,505	3,478,811	1,102,720,778

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	35,045,251	–	35,045,251
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,016,574,286	–	1,016,574,286
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	21,203,242	–	21,203,242
Debt securities issued	37	26,691,711	–	26,691,711
Total financial liabilities		1,099,514,490	–	1,099,514,490

15. (c) Group – 2020

	Note	**AC Rs. '000**	**FVPL Rs. '000**	**FVOCI Rs. '000**	**Total Rs. '000**
Assets					
Cash and cash equivalents	16	**6,598,595**	**–**	**–**	**6,598,595**
Balances with central banks	17	**6**	**–**	**–**	**6**
Placements with banks	18	**17,456,660**	**–**	**–**	**17,456,660**
Derivative financial instruments	19	**–**	**19,897**	**–**	**19,897**
Loans and advances	21	**517,833,067**	**–**	**–**	**517,833,067**
Debt instruments	20 , 22 and 23	**758,594,934**	**21,638,390**	**13,149,882**	**793,383,206**
Equity instruments	20 and 23	**–**	**1,979,554**	**2,909,959**	**4,889,513**
Total financial assets		**1,300,483,262**	**23,637,841**	**16,059,841**	**1,340,180,943**

15. Analysis of financial instruments by measurement basis (contd.)

15. (c) Group – 2020 (contd.)

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	**13,339,705**	–	**13,339,705**
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	**1,237,669,284**	–	**1,237,669,284**
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	**19,656,090**	–	**19,656,090**
Debt securities issued	37	**31,908,279**	–	**31,908,279**
Total financial liabilities		**1,302,573,358**	–	**1,302,573,358**

15. (d) Group – 2019 →

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	5,564,824	–	–	5,564,824
Balances with central banks	17	58	–	–	58
Placements with banks	18	15,745,184	–	–	15,745,184
Derivative financial instruments	19	–	11,622	–	11,622
Loans and advances	21	456,636,285	–	–	456,636,285
Debt instruments	20 , 22 and 23	619,567,786	20,347,936	1,009,706	640,925,428
Equity instruments	20 and 23	–	1,782,337	3,616,876	5,399,213
Total financial assets		1,097,514,137	22,141,895	4,626,582	1,124,282,614

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	36,139,122	–	36,139,122
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,015,635,421		1,015,635,421
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	32,808,023	–	32,808,023
Debt securities issued	37	26,955,697	–	26,955,697
Total financial liabilities		1,111,538,263	–	1,111,538,263

16 Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. They are recorded in the Financial Statements at their gross values less impairment. The group has calculated impairment provision as per SLFRS 9 – "Financial Instrument" based on external rating of particular bank.

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Cash in hand	**1,901,551**	941,102	**1,906,210**	947,240
Balances with banks	**4,590,397**	4,436,403	**4,692,371**	4,618,378
Money at call and short notice	**112**	–	**112**	–
Gross cash and cash equivalents (*)	**6,492,060**	5,377,505	**6,598,693**	5,565,618
Less: Impairment	**(97)**	(790)	**(98)**	(794)
Net cash and cash equivalents (*)	**6,491,963**	5,376,715	**6,598,595**	5,564,824

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

17 Balances with central banks

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Statutory balances with central banks				
Central Bank of Sri Lanka	**–**	–	**6**	58
Total	**–**	–	**6**	58

18 Placements with banks

Accounting policy

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values less impairment, where appropriate.
The Group has calculated impairment provision as per SLFRS 9 on "Financial Instrument" based on external rating of particular bank.

18. Placements with banks (contd.)

For the year ended 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Placements with banks – Sri Lanka				
Sri Lankan Rupee (LKR)	**–**	–	**4,206,751**	3,382,622
Americal Dollar (USD)	**8,809,168**	8,485,286	**8,809,168**	8,485,286
EURO (EUR)	**1,940,426**	1,568,305	**1,940,426**	1,568,305
Great British Pound (GBP)	**1,345,015**	1,270,574	**1,345,015**	1,270,574
Austalian Dollar (AUD)	**1,160,601**	1,042,290	**1,160,601**	1,042,290
Gross placements with banks	**13,255,210**	12,366,455	**17,461,961**	15,749,077
Less : Impairment	**(1,711)**	(1,986)	**(5,301)**	(3,893)
Net placements with banks	**13,253,499**	12,364,469	**17,456,660**	15,745,184

19 Derivative financial instruments

Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as "trading" unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives recorded at fair value through profit or loss

Derivatives except for derivatives used as hedging instruments are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

Derivatives used as hedge instruments

The Group entered into derivative contacts to hedge against the foreign exchange rate or interest rate. These derivatives are measured at fair value. The Group adopts hedge accounting mismatch to eliminate the accounting resulting from volatility in the Financial Statements between derivatives measured at fair value and the financial asset or liability (hedge exposure) measured at cost/amortised cost, if hedge is efficient.

Cash flow hedge

Cash flow hedge is measured at fair value at the end of each reporting period.

If a hedge of the exposure to variability in cash flow, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income within "cash flow hedge" – fair value gain/(loss). Any gain or losses in fair value relating to an ineffective portion is recognised immediately in the Income Statements.

19. Derivative financial instruments (contd.)

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial assets or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

19.1 Derivative assets

Bank and Group

As at 31 December	**Assets 2020 Rs. '000**	**Notional amount – 2020 Rs. '000**	Assets 2019 Rs. '000	Notional amount – 2019 Rs. '000
Interest rate derivatives				
Interest rate swaps (Note 19.2)	**19,897**	**2,000,000**	11,622	2,000,000
Foreign currency derivatives				
Currency swaps	**–**	**–**	–	–
Total	**19,897**	**2,000,000**	11,622	2,000,000

19.2 Swap agreement

Details	**Description of the hedge**
Swap Instrument	Counterparty – DFCC Bank
	Notional amount – Rs. 2,000 Mn.
Swap Item	Rs. 2,000 Mn. Term Loan to Sri Lanka Telecom (SLT) by DFCC
The period when the cash flows are expected to occur	Semi annual interest payment
Termination of agreement	20 February 2021
Base interest rate	6 months AWPLR (Average weighted prime lending rate)

20 Financial assets recognised through profit or loss

Accounting policy

Financial assets are classified as financial assets recognised through profit or loss if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking and recorded to fair value. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income as per SLFRS 9 on "Financial Instruments".

Financial assets recognised through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net gain/(loss) from trading" while interest income and expenses are recorded in "Net interest income" according to the terms of the contract, or when the right to the payment has been established. Dividend income and realised gain or losses are recorded in "Net gain/(loss) from trading".

The Group evaluates its financial assets recognised through profit or loss, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Measured at fair value				
Sri Lanka Government Securities				
Treasury Bills	**3,940,500**	–	**9,879,603**	6,655,355
Treasury Bonds	**5,605,498**	9,677,545	**11,758,787**	13,692,581
Equity securities [Note 20 (b)]	**1,675,748**	1,782,337	**1,675,748**	1,782,337
Unit Trust	**–**	–	**303,806**	–
Sub total	**11,221,746**	11,459,882	**23,617,944**	22,130,273
Designated at fair value	**–**	–	**–**	–
Total	**11,221,746**	11,459,882	**23,617,944**	22,130,273

20. (a) Analysis

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
By collateralisation				
Pledged as collateral	**–**	–	**9,355,916**	10,216,289
Unencumbered	**11,221,746**	11,459,882	**14,262,028**	11,913,984
Total	**11,221,746**	11,459,882	**23,617,944**	22,130,273
By currency				
Sri Lankan Rupee	**11,221,746**	11,459,882	**23,617,944**	22,130,273
United States Dollar	**–**	–	**–**	–
Total	**11,221,746**	11,459,882	**23,617,944**	22,130,273

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group

As at 31 December	2020			2019		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
1. Banks, finance and insurance						
Commercial Bank of Ceylon PLC	**1,030,963**	**143,015**	**83,405**	1,007,399	141,001	95,703
Commercial Bank of Ceylon PLC (NV)	**285,726**	**34,889**	**20,029**	278,511	34,332	23,116
DFCC Bank	**432,556**	**86,002**	**28,246**	430,000	85,787	39,517
Hatton National Bank PLC (NV)	**300,837**	**30,652**	**30,264**	293,163	50,465	39,724
LOLC Finance PLC	**3,628,769**	**40,148**	**13,064**	3,628,769	40,148	14,152
Sampath Bank PLC	**556,917**	**147,608**	**75,518**	556,917	147,608	90,443
Nation Trust BanK PLC	**2,331,061**	**143,948**	**139,864**	–	–	–
		626,261	**390,390**		499,341	302,655
2. Chemical and pharmaceuticals						
CIC Holdings PLC	–	–	–	68,029	7,792	4,082
Haycarb PLC	–	–	–	169,474	31,751	32,200
		–	–		39,543	36,282
3. Construction and engineering						
Access Engineering PLC	**3,470,023**	**132,692**	**85,363**	3,470,023	132,692	75,647
Colombo Dockyard PLC	**1,212,327**	**270,607**	**103,411**	1,212,327	270,607	75,164
		403,299	**188,774**		403,299	150,811
4. Diversified holdings						
Aitken Spence PLC	**2,493,516**	**294,681**	**144,125**	2,493,516	294,681	115,948
Browns Investments PLC	**2,327,153**	**11,636**	**10,007**	2,927,153	14,636	14,636
Hayleys PLC	–	–	–	123,026	41,512	21,517
Hemas Holdings PLC	**673,843**	**47,288**	**67,317**	673,843	71,659	53,907
John Keells Holdings PLC	**1,361,630**	**190,726**	**203,700**	911,630	152,795	152,789
Richard Pieris & Company PLC	–	–	–	2,924,320	27,557	34,507
Vallibel One PLC	**2,485,454**	**57,397**	**64,622**	3,269,832	75,511	57,222
		601,729	**489,771**		678,351	450,526
5. Hotels and travels						
Asian Hotels & Properties PLC	**1,366,132**	**106,609**	**58,607**	1,366,132	106,609	55,328
Aitken Spence Hotel Holdings PLC	**2,102,133**	**188,903**	**67,899**	2,102,133	188,903	56,968
Ceylon Hotels Corporation PLC	**3,975,017**	**128,776**	**53,663**	3,975,017	128,776	46,905
John Keells Hotels PLC	**2,011,205**	**37,557**	**22,123**	2,011,205	37,557	23,330
Lighthouse Hotels PLC	**1,175,667**	**71,492**	**41,854**	1,175,667	71,492	43,382
Marawila Resorts PLC	**699,556**	**5,915**	**1,469**	699,556	5,915	1,399
The Kingsbury PLC	**2,871,666**	**65,038**	**34,173**	2,871,666	65,038	37,619
Jetwing Symphony PLC	**1,300,000**	**19,500**	**12,480**	1,300,000	19,500	14,690
		623,791	**292,268**		623,790	279,621

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group (contd.)

As at 31 December	2020			2019		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
6. Investment trusts						
Renuka Holdings PLC (NV)	**466,438**	**11,307**	**5,131**	466,438	11,307	6,297
		11,307	**5,131**		11,307	6,297
7. Land and property						
Overseas Reality (Ceylon) PLC	**943,473**	**23,777**	**13,586**	943,473	23,777	15,096
		23,777	**13,586**		23,777	15,096
8. Manufacturing						
Teejay Lanka PLC	–	–	–	360,404	11,954	14,704
Lanka Ceramic PLC	**89,190**	**12,069**	**12,308**	89,190	12,068	12,362
Royal Ceramics Lanka PLC	–	–	–	1,748,679	221,888	154,758
Tokyo Cement Company (Lanka) PLC	–	–	–	473,992	19,971	22,752
Tokyo Cement Company (Lanka) PLC (NV)	–	–	–	611,060	22,602	23,954
Alumex PLC	–	–	–	121,295	2,074	1,795
		12,069	**12,308**		290,557	230,325
9. Power and energy						
LVL Energy Fund PLC	**4,606,600**	**46,066**	**46,987**	4,606,600	46,066	34,550
		46,066	**46,987**		46,066	34,550
10. Telecommunication						
Dialog Axiata PLC	**3,738,360**	**81,332**	**46,356**	3,738,360	81,332	45,982
		81,332	**46,356**		81,332	45,982
11. Trading						
Brown & Company PLC	**811**	**259**	**85**	793,717	253,948	57,862
		259	**85**		253,948	57,862
12. Unit trust						
Comtrust Equity Fund	**556,793**	**10,000**	**9,365**	556,793	10,000	9,321
Ceybank Unit Trust	**7,604,797**	**85,110**	**180,728**	7,604,797	85,110	163,009
		95,110	**190,093**		95,110	172,330
Total		**2,524,999**	**1,675,748**		3,046,421	1,782,337

21 Financial assets at amortised cost – Loans and advances

Accounting policy

Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates financial assets measured at fair value through other comprehensive income

“Loans and advances” include amounts due from banks and other customers. After initial measurement, loans and advances are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in “Interest income” in the Income Statement. The losses arising from impairment are recognised in “Impairment charge for loans and other losses” in the Income Statement.

From 1 January 2018, the Bank only measures loans and advances at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

Details of business model and SPPI test are given in Notes 2.5.1.4.1 and 2.5.1.4.2 on pages 150 and 151.

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Gross loans and advances				
Non-credit impaired*	**34,409,823**	31,896,777	**33,396,807**	31,916,413
Stage 1	**453,892,412**	387,398,241	**455,676,339**	389,417,668
Stage 2	**20,543,620**	30,227,995	**20,842,025**	30,437,953
Stage 3	**16,941,127**	9,138,886	**18,489,542**	10,668,447
Gross loans and advances	**525,786,983**	458,661,898	**528,404,713**	462,440,480
(Less): Accumulated impairment under:				
Stage 1	**2,948,093**	1,601,273	**3,059,041**	1,707,088
Stage 2	**897,811**	271,001	**973,686**	314,032
Stage 3	**5,145,919**	2,394,667	**6,538,919**	3,783,076
Total Impairment	**8,991,823**	4,266,941	**10,571,646**	5,804,195
Net loans and advances	**516,795,160**	454,394,957	**517,833,067**	456,636,285

*This mainly includes Loan against deposit and Securities purchased under resale agreements.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (a) Analysis by product →

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
By product				
Trade finance	–	–	–	–
Central Bank Treasury Bills	–	–	–	–
Lease rental and hire purchase receivable (21. e)	–	–	521,293	472,747
Pawning	42,398,950	36,754,318	42,437,557	36,792,150
Staff loans	11,330,749	7,565,685	11,479,896	7,689,104
Term loans				
Short term	595,322	922,161	1,112,147	922,161
Long term	462,663,155	408,213,779	465,085,825	411,338,726
Others				
Sri Lanka Government Securities	–	–	–	–
Loan to Government	2,075,000	2,075,000	2,075,000	2,075,000
Securities purchased under resale agreements	6,723,807	3,130,955	5,692,995	3,150,592
Gross total	525,786,983	458,661,898	528,404,713	462,440,480

21. (b) Analysis by currency →

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
By currency				
Sri Lankan Rupee	520,402,382	447,213,959	523,020,112	450,992,541
United States Dollar	5,384,601	11,447,939	5,384,601	11,447,939
Gross total	525,786,983	458,661,898	528,404,713	462,440,480

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (c) Analysis by industry →

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
By industry				
Agriculture and fishing	**33,067,190**	32,854,359	**33,728,060**	33,543,973
Manufacturing	**–**	–	**767,442**	960,704
Tourism	**63,691**	46,264	**162,693**	136,981
Transport	**1,643,128**	1,695,189	**1,720,111**	1,763,130
Construction/housing	**152,457,313**	128,128,654	**152,905,473**	128,361,035
Traders	**–**	–	**623,817**	708,986
New economy	**–**	–	**40,889**	13,462
Others				
Financial and business services	**8,540,220**	11,663,968	**8,775,528**	11,663,968
Infrastructure	**96,579,186**	71,020,455	**96,742,844**	71,020,455
Power and energy	**15,963,463**	12,674,792	**15,963,463**	12,674,792
Education	**9,071,736**	36,724,769	**9,084,023**	36,724,769
Personal/pawning/other	**208,401,056**	163,853,448	**207,890,370**	164,868,223
Gross total	**525,786,983**	458,661,898	**528,404,713**	462,440,480

Note: Bank has converted Rs. 26,907.85 Mn. worth of outstanding Loans of KDU as Debentures (covered by Treasury Guarantee) on 11 March 2020. Therefore it has been classified from Loans and advances to debt and other instruments as at 31 December 2020.

Further Bank has agreed to converted Rs. 59,365.66 Mn. worth of outstanding Loans of RDA as Debentures (covered by Treasury Guarantee) with effect from 1 January 2021.

21. (d) Movements in impairment during the year →

Accounting policy

Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as financial assets at amortised cost – debt and other instruments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (Contd.)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a impairment provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income".

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Credit loss expense".

Collective assessment of impairment

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of expected loss experience for assets with credit risk characteristics similar to those in the Group. Expected loss experience is adjusted on the basis of current observable data to reflect the effect of current conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans and advances

The Group's accounting policy for write-off under SLFRS 9 remains the same as it was under LKAS 39. Loans (and the related impairment allowance accounts) are normally written off, either partially or in entirety, when there is no realistic prospect of recovery and all possible steps have been exhausted in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. If a write-off is later recovered, the recovery is credited to "other operating income"

Collateral valuation

The Group uses collateral where possible to mitigate the risk on financial assets. The collateral comes in various forms such as cash, gold, Government Securities. To the extent possible, the Group uses active market data for valuing financial assets held as collaterals.

Details of impairment policy are given in Note 2.5.2 on page 154.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (Contd.)

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Stage 1				
Balance as at 1 January	**1,601,273**	1,610,731	**1,707,088**	1,610,731
Acquisition through business combinations	**–**	–	**–**	84,481
Charge/(Write back) to Income Statement	**1,346,820**	(9,458)	**1,351,953**	11,876
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**2,948,093**	1,601,273	**3,059,041**	1,707,088
Stage 2				
Balance as at 1 January	**271,001**	272,348	**314,032**	272,348
Acquisition through business combinations	**–**	–	**–**	43,159
Charge/(Write back) to Income Statement	**626,810**	(1,347)	**659,654**	(1,476)
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**897,811**	271,001	**973,686**	314,032
Stage 3				
Balance as at 1 January	**2,394,667**	1,963,230	**3,783,076**	1,963,230
Acquisition through business combinations	**–**	–	**–**	1,389,693
Charge/(Write back) to Income Statement	**2,763,609**	447,061	**2,783,032**	450,255
Write-off during the year	**(12,358)**	(15,624)	**(12,358)**	(15,624)
Other movements	**–**	–	**(14,831)**	(4,478)
Balance as at 31 December	**5,145,919**	2,394,667	**6,538,919**	3,783,076
Total impairment provision as at 31 December	**8,991,823**	4,266,941	**10,571,646**	5,804,195

21. (e) Lease and hire purchase receivables →

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Gross lease and hire purchased receivables	**–**	–	**521,565**	473,018
Unearned interest asset	**–**	–	**148,555**	133,040
Unearned interest liability	**–**	–	**(148,827)**	(133,311)
Net lease and hire purchased receivables	**–**	–	**521,293**	472,747

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision

Overview

On 11 March 2020, the outbreak of COVID-19 was officially declared a pandemic by the World Health Organisation. The COVID-19 pandemic continues to have a significant adverse impact on the global economy. Measures undertaken in the second quarter to contain the spread of the virus, including the closure of non-essential businesses, succeeded in curbing the initial spread of infection, allowing for the partial easing of these measures in the third and fourth quarters. As a result, certain sectors of the economy had seen a resumption of activity. However, there is a risk that the recent retightening of physical distancing measures enacted by governments and businesses in response to the resurgence in infection rates could impact economic activity beyond levels that were previously anticipated.

The overall economy continues to operate below pre-pandemic levels with continuing uncertainty related to economic growth and unemployment, which ultimately will only be resolved with the dissemination of an effective vaccine for COVID-19. As a result, we continue to operate in an uncertain macroeconomic environment. The preparation of the consolidated financial statements in accordance with SLFRS requires management to make estimates and assumptions that affect the recognised and measured amounts of assets, liabilities, net income, comprehensive income and related disclosures. Significant estimates and assumptions are made in the areas of the valuation of financial instruments, allowance for credit losses, asset impairment, income taxes, provisions and contingent liabilities, post-employment and other long-term benefit plan assumptions. Actual results could differ from these estimates and assumptions. The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments, and asset impairment.

Valuation of financial instruments

Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available. The COVID-19 pandemic has increased market volatility and has negatively impacted the trading levels of certain financial instruments. As a result and as part of our process to determine the fair value of financial instruments, since the onset of the pandemic, we have applied a heightened level of judgment to a broader population of financial instruments than would otherwise generally be required with the objective of determining the fair value that is most representative of those financial instruments.

Government lending programmes in response to COVID-19

Implicit in our economic outlook is the assumption that the manner in which governments respond to the second and subsequent waves of the virus, and the dissemination of an effective mass-produced vaccine, will allow economies to continue to recover during 2021. Actual experience may differ materially from these expectations, including in relation to the duration and severity of economic contraction and the ultimate timing and extent of a future recovery, which could lead to reductions in the recoverable amounts, which in turn could result in impairment charges. GoSL through the CBSL has initiated many financial support programmes to overcome the financial distress of the entities and individuals. The Debt moratorium programmes, re-financing facilities, working capital Loans and accommodative monetary and fiscal policies have a significant positive impact on the local economy and all those measures collectively push the economy back to recovery. Certain actions such as debt moratorium programmes and payment deferment programmes may negatively impact the effective interest of the Bank. However prevailing low interest rate regime (for deposits) has mitigate the negative impact on low effective interest rates up to certain level. The Bank may experience a higher volume of defaults and delinquencies in certain sectors while probable high level of impairment may expect in those sectors.

The bank has given its first debt moratorium and payment deferment to all its customers other than who refused to have debt moratorium or payment deferments. The moratorium has been given at the concessionary rate of seven percent and the payments are deferred until the end of the loan period. The moratorium period has been varied from two months to six months and in a very limited scenarios it has been extended to more than six months. The bank has given its second debt moratorium during October with Respond to the COVID-19 Second Wave Surge. The eligible customers are entitled to defer their capital and interest for a maximum period of six months and at the end of the deferment period the total arrears capital has been converted to a loan with an accumulated interest at treasury bill plus rate.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision (Contd.)

Allowance for credit losses

The determination of whether a SICR has occurred in the COVID-19 pandemic required a heightened application of judgment in a number of areas, including with respect to the evaluation of the evolving macroeconomic environment, the various client relief programmes we have provided to our clients and the unprecedented level of government support being provided to individuals and businesses. Interest or principal deferments pursuant to various relief programmes provided to both our retail and business and government clients have not automatically resulted in a SICR that would trigger migration to stage 2 by reason only that a deferral under the program was granted.

However, the inclusion of a loan in a relief program did not preclude its migration to stage 2 if we determined that there was a SICR based on our assessment of the changes in the risk of a default occurring over the expected life of a loan. We applied judgment in the determination of the industries most impacted by the COVID-19 pandemic and assessed the associated impact on risk ratings after considering the benefit of government support. Measuring both 12-month and lifetime expected credit losses, Our ECL models leverage the PD, LGD, and EAD parameters. For standardised business and government portfolios, available long-run PDs, LGDs and EADs are also converted to point-in-time parameters through the incorporation of forward-looking information for the purpose of measuring ECL under SLFRS 9. Significant judgement is involved in determining which forward-looking information variables are relevant for portfolios and in determining the extent by which through-the-cycle parameters should be adjusted for forward-looking information to determine point-in-time parameters. While changes in the set of forward-looking information variables used to convert through-the-cycle PDs, LGDs and EADs into point-in-time parameters can either increase or decrease ECL allowances in a particular period, changes to the mapping of forward-looking information variables to particular portfolios are expected to be infrequent. However, changes in the particular forward-looking information parameters used to quantify point-in-time parameters will be frequent as our forecasts are updated on a quarterly basis. Increases in the level of pessimism in the forward-looking information variables will cause increases in ECL, while increases in the level of optimism in the forward-looking information variables will cause decreases in ECL. These increases and decreases could be significant in any particular period and will start to occur in the period where our outlook of the future changes.

With respect to the lifetime of a financial instrument, the maximum period considered when measuring ECL is the maximum contractual period over which we are exposed to credit risk. The measurement of ECL in the COVID-19 pandemic required a heightened application of judgment in a number of areas, including with respect to our expectations concerning the degree to which forward-looking information would correlate with credit losses in the current environment characterised by unprecedented levels of government support relative to the historical experience in our models. We applied judgment with respect to the degree that certain industries and portfolios would be negatively impacted by the COVID-19 pandemic and the degree that various government support programmes are expected to limit credit losses. Forecasting forward-looking information for multiple scenarios and determining the probability weighting of the scenarios as indicated above, forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL.

Key forward-looking information variables includes GDP growth, Unemployment rate, Inflation rate, exchange rate, Interest rate. For the majority of our loan portfolios, our forecast of forward-looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. In forming the base case scenario, we consider the forecasts of international organisations and monetary authorities such as the International Monetary Fund (IMF), and the Central Bank of Sri Lanka, as well as private sector economists. We then derive reasonably possible "upside case" and "downside case" scenarios using external forecasts that are above and below our base case and the application of management judgment. A probability weighting is assigned to our base case, upside case and downside case scenarios based on management judgment. In general, a worsening of our outlook on forecasted forward-looking information for each scenario, an increase in the probability of the downside case scenario occurring, or a decrease in the probability of the upside case scenario occurring will increase the estimated ECL allowance.

21. Financial assets at amortised cost – LOANS and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision (Contd.)

Allowance for credit losses (Contd.)

In contrast, an improvement in our outlook on forecasted forward-looking information, an increase in the probability of the upside case scenario occurring, or a decrease in the probability of the downside case scenario occurring will have the opposite impact. It is not possible to meaningfully isolate the impact of changes in the various forward-looking information variables for a particular scenario because of both the interrelationship between the variables and the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring. The forecasting of forward-looking information and the determination of scenario weightings in the COVID-19 pandemic required a heightened application of judgment in a number of areas as our forecast reflects numerous assumptions and uncertainties regarding the economic impact of the COVID-19 pandemic, which will ultimately depend on the speed at which an effective vaccine can be developed and administered on a mass scale, and the ability of governments, businesses and health-care systems to effectively limit the epidemiological and economic impacts of the resurgences of the virus in the intervening period. Significant changes to our forecasts were made in the current year. The following table provides the base case, upside case and downside case scenario forecasts for select forward-looking information variables used to estimate our ECL.

Base case Forecast (25%)	2021	Average of Next 6 years
GDP Growth	2.80%	4.65%
Inflation (YoY)	4.88%	5.03%
Interest Rate	6.56%	6.55%
Exchange Rate (US$: LKR)	197.05	244.62
Unemployment	5.42%	5.42%
Upside case Forecast (25%)		
GDP Growth	4.73%	6.62%
Inflation (YoY)	4.61%	4.56%
Interest Rate	6.24%	5.77%
Exchange Rate (US$: LKR)	189.50	204.23
Unemployment	5.37%	5.30%
Downside case Forecast (50%)		
GDP Growth	-3.00%	-0.18%
Inflation (YoY)	6.58%	7.00%
Interest Rate	6.91%	7.45%
Exchange Rate (US$: LKR)	221.47	330.00
Unemployment	5.47%	5.54%

21. Financial assets at amortised cost – LOANS and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision (Contd.)

Use of management overlays

Management overlays to ECL allowance estimates are adjustments which we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic, microeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in our current parameters, internal risk rating migrations, or forward-looking information are examples of such circumstances.

Impact of the COVID-19 pandemic To address the uncertainties inherent in the current environment, we utilised management overlays with respect to the impact that the COVID-19 pandemic will have on the migration of certain business and government exposures that we believe are the most susceptible to these risks and the resulting measurement of the ECL for those exposures. The mitigating impact of government support measures was considered in the determination of these overlays to the extent not already reflected in our models. In addition, management overlays were applied with respect to the impact of government support and client relief measures on the migration of retail exposures and the resulting measurement of the ECL for those exposures. The use of management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates.

If a customer has not been given debt moratorium or payment deferment (customer refused to have it), those customers are being treated as normal and went through the normal impairment process. However, the forward PDs are applied to all the customers despite of their category in the debt moratorium or payment deferment.

The first-time payment deferrals were offered at the end of March shortly after lockdown rules went into effect and little information about the circumstances of customers was available. The extensions are being offered after more time has passed and additional data is now available to make further assessment of customers making use of payment holidays. The assessment has been conducted at individual level and collective exposure level. The bank has carried out below steps to assess the impairment for debt moratorium given customers.

- Customer having a temporary income reduction or prolonged (go beyond one year) financial distress and expected recovery time and point
- Historical payment pattern of the borrowers (frequent defaulters)
- Information gathered from customers at the time of requesting for payment deferments
- Application of management judgment

ECLs may be adversely impacted by increased levels of default for exposures in certain sectors directly impacted by the COVID-19 pandemic (such as the Travel and Tourism, Aviation, hospitality and leisure, Transport, Consumer Durables, Motor Vehicle, Entertainment sectors).

Retail loan and advances of above sectors which were initially group under Stage one moved to Stage two. As a result, Loans and advances amounting to Rs. 4,791.5 Mn. were moved from Stage one to Stage two and provision for impairment was increased by Rs. 374.4 Mn. for the year ended 31 December 2020.

	Stage 1 Rs. '000	Stage 2 Rs. '000	Net impact Rs. '000
Exposure	(4,791,567)	4,791,567	–
Impairment provision	(53,378)	427,770	374,393

All the Corporate clients were assessed individually based on their historical payment patterns, COVID-19 economic impact to their sector and geographical area, expected recovery of the sector, financial strength of the entity, government and CBSL support, and other holistic factors. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

The portfolio level impairment assessments were carried out for the individual borrowers. However, in some scenario's management judgment was used to assess the reasonableness of the customer request of prolonged debt moratorium or deferment. The borrowers were allocated between stages based on their sector and management judgement. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

22 Financial assets at amortised cost – Debt and other instruments

Accounting policy

Financial assets at amortised cost – debt and other instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which, the Group has the intention and ability to hold to maturity. After initial measurement, financial assets at amortised cost – debt and other instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest and similar income" in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement under "Impairment charges".

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Sri Lanka Government Securities				
Treasury Bills	**30,153,175**	21,007,006	**30,153,175**	21,007,006
Treasury Bonds	**684,825,110**	581,623,525	**688,509,857**	585,301,537
Sri Lanka Development Bonds (SLDB)	**3,893,458**	416,550	**3,893,458**	416,550
Corporate debt instruments	**34,188,346**	9,163,833	**34,555,055**	9,419,428
Trust certificates	**1,276,258**	3,437,861	**1,276,258**	3,437,861
Commercial papers	**–**	–	**316,270**	6,000
Other investments	**–**	–	**165,595**	165,595
Gross total	**754,336,347**	615,648,775	**758,869,668**	619,753,977
Less: Impairment	**(103,002)**	(14,454)	**(274,734)**	(186,191)
Net total	**754,233,344**	615,634,321	**758,594,934**	619,567,786

22. (a) Analysis

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
By collateralisation				
Pledged as collateral	**13,119,100**	48,813,600	**16,989,266**	52,120,996
Unencumbered	**741,217,247**	566,835,175	**741,880,402**	567,632,981
Gross total	**754,336,347**	615,648,775	**758,869,668**	619,753,977
By currency				
Sri Lankan Rupee	**750,442,889**	615,232,225	**754,976,210**	619,337,427
United States Dollar	**3,893,458**	416,550	**3,893,458**	416,550
Gross total	**754,336,347**	615,648,775	**758,869,668**	619,753,977

22. Financial assets at amortised cost – Debt and other instruments (contd.)

22. (b) Movements in impairment during the year

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Stage 1				
Opening balance as at 1 January	**8,601**	9,072	**8,745**	9,117
Acquisition through business combinations	**–**	–	**–**	98
Charge/(Write back) to Income Statement	**92,711**	(471)	**92,705**	(470)
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**101,312**	8,601	**101,450**	8,745
Stage 2				
Balance as at 1 January	**5,852**	–	**5,852**	–
Charge/(Write back) to Income Statement	**(4,162)**	5,852	**(4,162)**	5,852
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**1,690**	5,852	**1,690**	5,852
Stage 3				
Balance as at 1 January	**–**	–	**171,595**	–
Acquisition through business combinations	**–**	–	**–**	171,595
Charge/(Write back) to Income Statement	**–**	–	**–**	–
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**–**	–	**171,595**	171,595
Total impairment provision as at 31 December	**103,002**	14,454	**274,734**	186,191

23 Financial assets at fair value through other comprehensive income

Accounting policy

Financial Assets at Fair Value through Other Comprehensive Income include equity and debt securities. Equity investments classified as Fair Value through Other Comprehensive Income are those which are held as strategic investment. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets at fair value through other comprehensive income are subsequently measured at fair value. Financial assets at fair value through other comprehensive income can be divided into two categories as follows:

i. Equity instruments fair value through other comprehensive income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 on “Financial Instruments: Presentation” and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

“Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the “OCI reserve”. Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment”.

Equity investments under FVOCI that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

ii. Debt instruments at fair value through other comprehensive income

The Group applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

23. Financial assets at fair value through other comprehensive income (contd.)

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Sri Lanka Government Securities [(Note 23 (c)]				
Treasury Bills	**1,475,952**	–	**1,475,952**	–
Treasury Bonds	**11,025,922**	–	**11,673,930**	1,009,706
Equity securities				
Quoted equity securities [Note 23 (d)]	**2,514,374**	3,208,101	**2,652,221**	3,344,002
Unquoted equity securities [Note 23 (e)]	**255,574**	270,710	**300,215**	315,351
(Less): Impairment	**–**	–	**(42,476)**	(42,476)
Net financial assets at fair value through other comprehensive income	**15,271,822**	3,478,811	**16,059,841**	4,626,582

23. (a) Analysis

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
By collateralisation				
Pledged as collateral	**–**	–	**524,981**	582,476
Unencumbered	**15,271,822**	3,478,811	**15,534,860**	4,044,106
Total	**15,271,822**	3,478,811	**16,059,841**	4,626,582
By currency				
Sri Lankan Rupee	**15,271,822**	3,478,811	**16,059,841**	4,626,582
United States Dollar	**–**	–	**–**	–
Total	**15,271,822**	3,478,811	**16,059,841**	4,626,582

23. Financial assets at fair value through other comprehensive income (contd.)

23. (b) Movements in impairment during the year

No impairment movement during the year.

23. (c) Sri Lanka Government Securities

	2020 – Bank			2019 – Bank		
	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000
Sri Lanka Government Securities – Treasury Bills	1,500,000	1,401,869	1,475,952	–	–	–
Sri Lanka Government Securities – Treasury Bonds	10,450,000	10,852,162	11,025,922	–	–	–
		12,254,031	12,501,874			

	2020 – Group			2019 – Group		
	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000
Sri Lanka Government Securities – Treasury Bills	1,500,000	1,401,869	1,475,952	–	–	–
Sri Lanka Government Securities – Treasury Bonds	11,016,666	11,482,250	11,673,930	900,000	1,104,773	1,009,706
		12,884,119	13,149,882		1,104,773	1,009,706

23. (d) Quoted investments – Equity securities – Bank and Group

	2020 – Bank			2019 – Bank		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	11,773,268	1,730,274	1,489,318	11,515,728	1,689,969	1,983,008
Sri Lanka Telecom PLC	13,158,700	445,643	440,816	13,158,700	445,643	419,763
People's Leasing & Finance PLC	47,116,037	830,177	584,239	44,990,502	805,318	805,330
		3,006,094	2,514,374		2,940,930	3,208,101

23. Financial assets at fair value through other comprehensive income (contd.)

23. (d) Quoted investments – Equity securities – Bank and Group (Contd.)

	2020 – Group			2019 – Group		
	Number of shares	**Cost Rs. '000**	**Fair value Rs. '000**	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	**11,773,268**	**1,730,274**	**1,489,318**	11,515,728	1,689,969	1,983,008
Sri Lanka Telecom PLC	**13,158,700**	**445,643**	**440,816**	13,158,700	445,643	419,763
People's Leasing Company PLC	**47,116,037**	**830,177**	**584,239**	44,990,502	805,318	805,330
National Development Bank	**16,397**	**1,283**	**1,281**	15,634	971	1,563
Commercial Bank PLC	**216**	**10**	**17**	212	7	20
Lanka ORIX Leasing Company	**200**	**1**	**27**	200	1	36
Sampath Bank PLC	**3,609**	**311**	**489**	3,609	83	586
Watawala Plantation PLC	**4,046**	**21**	**229**	4,046	20	105
Trans Asia Hotel PLC	**4,000**	**35**	**264**	4,000	35	279
Lanka Ceramic PLC	**917**	**24**	**126**	917	24	127
Lanka Walltile PLC	**117**	**2**	**17**	117	2	8
Kelani Valley Plantations PLC	**5,500**	**198**	**435**	5,500	198	490
Hapugastenna Plantations PLC	**100**	**3**	**2**	100	3	2
Aitken Spence PLC	**18,000**	**160**	**1,040**	18,000	160	837
Pan Asia Bank PLC	**10,298,499**	**96,012**	**133,880**	10,298,499	96,012	131,821
Hatton Plantations PLC	**4,000**	**30**	**40**	4,000	–	28
		3,104,184	**2,652,221**		3,038,446	3,344,002

23. (e) Unquoted investments – Equity securities →

	2020 – Bank			2019 – Bank		
	Number of shares	**Cost Rs. '000**	**Cost/fair value Rs. '000**	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000
Investment – Credit Information Bureau	**30,450**	**57,364**	**57,364**	30,450	57,364	57,364
Investment – Associated Newspapers of Ceylon Limited	**20,000**	**127**	**127**	20,000	127	127
Investment – Regional Development Bank (RDB)	**16,452,126**	**164,521**	**198,083**	16,452,126	164,521	213,219
(Less): Impairment		**–**	**–**		–	–
		222,012	**255,574**		222,012	270,710

23. Financial assets at fair value through other comprehensive income (contd.)

23. (e) Unquoted investments – Equity securities (Contd.)

	2020 – Group			2019 – Group		
	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000
Investment – Credit Information Bureau	**32,093**	**57,528**	**57,528**	32,093	57,528	57,528
Investment – Associated Newspapers of Ceylon Limited	**20,000**	**127**	**127**	20,000	127	127
Investment – Regional Development Bank (RDB)	**16,452,126**	**164,521**	**198,083**	16,452,126	164,521	213,219
Investment – Sri Lanka Financial Services Bureau Ltd.	**200,000**	**2,000**	**2,000**	200,000	2,000	2,000
Pramuka Merchant Corporation	**500,000**	**5,000**	**5,000**	500,000	5,000	5,000
Prime Development & Constructions	**230,000**	**2,300**	**2,300**	230,000	2,300	2,300
Janashakthi Life	**2,500,000**	**25,000**	**25,000**	2,500,000	25,000	25,000
Janashakthi Holding	**1,000,000**	**10,000**	**10,000**	1,000,000	10,000	10,000
Vanik Incorporation	**17,000**	**176**	**176**	17,000	176	176
		266,652	**300,215**		266,652	315,351
(Less): Impairment		**–**	**(42,476)**		–	(42,476)
		266,652	**257,739**		266,652	272,874

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value can not be reliably estimated. There is no active market for these investments and Group intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data.

24 Investments in subsidiaries

Accounting policy

Investments in subsidiary companies are accounted at cost less allowance for impairment in Financial Statements of the Bank. The net assets of subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

As at 31 December			2020		2019	
	2020 %	2019 %	Cost Rs. '000	Valuation* Rs. '000	Cost Rs. '000	Valuation* Rs. '000
Unquoted equity investments						
NSB Fund Management Co. Ltd. (170,000,000 ordinary shares of Rs. 10.00 each)	**100**	100	**1,700,000**	**3,833,071**	1,700,000	3,337,123
Sri Lanka Savings Bank Limited (8,204,464 ordinary shares)	**100**	100	**3,111,000**	**6,529,849**	3,111,000	4,930,776
(Less): Impairment [Refer 24. (d)]			**–**	**–**	–	–
Net total			**4,811,000**	**10,362,920**	4,811,000	8,267,899

* The Valuation of investments in subsidiaries have been carried out on net asset basis as at 31 December 2020 based on audited Financial Statements.

24. Investments in subsidiaries (Contd.)

24. (a) Acquisition and disposal of subsidiary

The National Savings Bank acquired 100% equity stake in Sri Lanka Savings Bank Limited (SLSBL) as fully own subsidiary by paying Rs. 3,111 Mn. on 11 October 2019 with the special approval of CBSL. Bank does not have any acquisition or merger during the year 2020. The fair value of assets and liabilities of the investee (SLSBL) are given below:

As at 31 December	SLSBL Rs. '000	2019 Rs. '000
Placements with banks	5,693,179	5,693,179
Loans and advances	2,205,551	2,205,551
Debt and other instruments	716,931	716,931
Financial assets measured at fair value through other comprehensive income	131,728	131,728
Property, plant and equipment	288,695	288,695
Right of used assets	16,462	16,462
Investment properties	333,315	333,315
Intangible assets	287	287
Other assets	65,625	65,625
Due to depositors	(1,089,200)	(1,089,200)
Due to other borrowers	(1,371,915)	(1,371,915)
Lease liability	(15,772)	(15,772)
Debt securities issued	(264,130)	(264,130)
Retirement benefit obligations	(21,195)	(21,195)
Current tax liabilities	(418,858)	(418,858)
Other liabilities	(1,588,729)	(1,588,729)
Net Identifiable assets and liabilities	4,681,974	4,681,974
Gain from Bargain purchase (Refer Note 9)	1,649,490	1,649,490
	3,032,484	3,032,484

24. (b) Satisfied by

As at 31 December	SLSBL Rs. '000	2019 Rs. '000
Analysis of cash and cash equivalents on acquisition of subsidiary		
Cash consideration	3,111,000	3,111,000
Cash in hand and at bank acquired	(97,201)	(97,201)
Due to Bank/over draft	18,685	18,685
	3,032,484	3,032,484

24. (c) Interest Income and profit of acquire

No acquisition or disposal have been occurred during the year 2020.

24. (d) Movements in impairment during the year

No impairment movements during the year 2020.

25 Investment in associates and joint ventures

No investment in associates and joint ventures as at 31 December 2020.

26 Property, plant and equipment

Accounting policy

Basis of recognition

Property, plant and equipment are recognised if it is probable that future benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured. Property, plant and equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Cost model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years or more frequently, if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the Revaluation Reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

26. Property, plant and equipment (contd.)

Derecognition

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

Capital work-in-progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work in progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment by the Group.

Improvement to rent/leasehold building

Effective from 1 January 2017 the Bank has decided to capitalised the improvement to rent/leasehold building. The improvement will be amortised over the lease period effective from same date.

Depreciation

Depreciation is recognised in profit or loss on the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates for the identified classes of assets are as follows:

Category of asset	Depreciation period
Leasehold properties, improvement to rent/leasehold	over the period of lease
Freehold buildings	20 - 40 years
Office, sundry equipment and furniture and fittings	5 - 10 years
Motor vehicles	5 years
Computer hardware	4 - 5 years
Computer software	4 - 5 years

The Group provides depreciation of an assets commencing from the date when they are available for use to the date of disposal of the asset.

26. Property, plant and equipment (contd.)

26. (a) Property, plant and equipment – Bank – 2020 →

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2020	10,672,859	703,401	2,994,552	2,237,731	459,285	408,370	17,476,198
Additions	543,035	191,574	424,316	230,431	863	258,524	1,648,743
Revaluation gain/(loss)	1,468,754	–	–	–	–	–	1,468,754
Depreciation adjustment for revalued assets	(188,845)	–	–	–	–	–	(188,845)
Disposals	(2,760)	–	(78,537)	(24,249)	(5,700)	–	(111,245)
Transfers/Adjustment	(66,000)	(110,313)	(1,118)	(2,915)	–	(490,480)	(670,826)
Closing balance as at 31 December 2020	12,427,043	784,662	3,339,213	2,440,999	454,448	176,414	19,622,780
(Less): Accumulated depreciation							
Opening balance as at 1 January 2020	114,505	135,408	2,058,621	1,268,960	334,128	–	3,911,621
Charge for the year	74,340	51,307	335,107	155,531	37,109	–	653,392
Depreciation adjustment for revalued assets	(188,845)	–	–	–	–	–	(188,845)
Disposals	–	–	(78,522)	(21,142)	(5,670)	–	(105,334)
Transfers/Adjustment	–	–	–	946	–	–	946
Closing balance as at 31 December 2020	–	186,714	2,315,205	1,404,295	365,566	–	4,271,779
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2020	12,427,043	597,947	1,024,008	1,036,704	88,882	141,186	15,315,772

26. Property, plant and equipment (contd.)

26. (a) Property, plant and equipment – Bank – 2019 →

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2019	10,234,299	634,944	2,618,916	1,960,815	365,656	508,847	16,323,477
Additions	438,560	183,870	428,332	359,522	106,804	427,295	1,944,383
Disposals/Transfer	–	(115,413)	(52,696)	(82,606)	(13,175)	(527,772)	(791,662)
Closing balance as at 31 December 2019	10,672,859	703,401	2,994,552	2,237,731	459,285	408,370	17,476,198
(Less): Accumulated depreciation							
Opening balance as at 1 January 2019	52,203	96,077	1,835,348	1,138,244	311,926	–	3,433,797
Charge for the year	62,302	39,331	274,965	152,457	35,377	–	564,432
Disposals/Transfers	–	–	(51,692)	(21,741)	(13,175)	–	(86,608)
Closing balance as at 31 December 2019	114,505	135,408	2,058,621	1,268,960	334,128	–	3,911,621
(Less): Impairment	–	–	–	–	–	–	–
Net book value as at 31 December 2019	10,558,354	567,993	935,931	968,771	125,157	408,370	13,564,578

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2020 →

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2020	10,959,379	703,401	3,041,507	2,293,586	503,525	408,370	17,909,769
Additions	543,035	191,574	425,594	232,525	863	258,524	1,652,116
Revaluation gain/(loss)	1,907,860	–	–	–	–	–	1,907,860
Depreciation adjustment for revalued assets	(185,983)	–	–	–	–	–	(185,983)
Disposals	(2,760)	–	(78,537)	(24,249)	(5,700)	–	(111,245)
Transfer from investment properties	144,924	5,076	–	–	–	–	150,000
Transfers/Adjustment	(66,000)	(110,313)	(1,118)	(2,915)	–	(490,480)	(670,826)
Closing balance as at 31 December 2020	13,300,456	789,738	3,387,446	2,498,947	498,688	176,414	20,651,691
(Less): Accumulated depreciation							
Opening balance as at 1 January 2020	117,151	135,408	2,102,352	1,318,607	378,369	–	4,051,887
Charge for the year	74,556	51,307	336,850	157,289	37,109	–	657,110
Depreciation adjustment for revalued assets	(185,983)	–	–	–	–	–	(185,983)
Disposals	–	–	(78,522)	(21,142)	(5,670)	–	(105,334)
Transfers/Adjustment	–	–	–	946	–	–	946
Closing balance as at 31 December 2020	5,724	186,715	2,360,680	1,455,700	409,807	–	4,418,626
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2020	13,294,731	603,023	1,026,766	1,043,247	88,881	141,186	16,197,837

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2019

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2019	10,234,299	634,944	2,624,715	1,962,946	365,655	508,847	16,331,406
Acquisition through business combinations	286,520	–	40,325	51,582	44,241	–	422,668
Additions	438,560	183,870	429,274	362,799	106,804	427,295	1,948,601
Disposals/Transfers	–	(115,413)	(52,808)	(83,741)	(13,175)	(527,772)	(792,908)
Closing balance as at 31 December 2019	10,959,379	703,401	3,041,507	2,293,586	503,525	408,370	17,909,768
(Less): Accumulated depreciation							
Opening balance as at 1 January 2019	52,203	96,077	1,839,213	1,139,554	311,926	–	3,438,973
Acquisition through business combinations	2,592	–	38,880	48,292	44,210	–	133,973
Charge for the year	62,356	39,331	276,063	153,339	35,409	–	566,498
Disposals/Transfers	–	–	(51,804)	(22,578)	(13,175)	–	(87,557)
Closing balance as at 31 December 2019	117,151	135,408	2,102,352	1,318,607	378,369	–	4,051,887
(Less): Impairment	–	–	–	–	–	–	–
Net book value as at 31 December 2019	10,842,228	567,993	939,155	974,979	125,156	408,370	13,857,882

* Leasehold properties, improvement to rent/leasehold buildings include work-in-progress of improvement to rent/leasehold building amounting to Rs. 24.42 Mn. as at 31 December 2020.

** Office, sundry equipment and furniture and fittings include work-in-progress of office equipment amounting to Rs. 144.43 Mn. as at 31 December 2020.

26. (c) Revaluation/fair valuation of the Bank

The Bank has revalued its land and buildings, by professionally qualified independent valuers. The revaluation was carried out by taking into account the observable prices in active market or recent market transactions on arm's length basis. Accordingly a revaluation surplus (before deferred tax), amounting to Rs. 1,482.47 Mn. had been credited to the Revaluation Reserve Account in 2020 and impairment 13.72 Mn. above the revaluation reserves previously recognised on individual assets basis has been charged to income statement during the year 2020.

26. (d) Land and buildings of the Bank

Land and building include freehold land value of Rs.9,568.82 Mn. as at 31 December 2020.

26. (e) Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities.

26. Property, plant and equipment (contd.)

26. (f) Fully-depreciated property, plant and equipment

The initial cost of fully-depreciated property, plant and equipment (including Intangible assets/Computer Software), which are still in use as at reporting date are as follows:

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Computer hardware	**1,483,960**	1,367,666	**1,524,045**	1,407,813
Office equipment, furniture and fittings	**426,052**	368,154	**470,511**	403,394
Intangible assets – Computer software	**587,213**	472,864	**587,213**	474,834
Sundry equipments/Motor vehicles and others	**591,841**	526,666	**636,082**	571,821

27 Right of used assets

Accounting policy

The Group's right of used assets consist of the value of capitalised lease agreement held.

Basis of recognition

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date as specified in the Lease Agreement), which is the present value of lease payments to be made over the lease term.

Basis of measurement

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received.

Useful economic life and amortisation

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

27. (a) Capitalised value of right of used assets

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**1,312,091**	–	**1,378,340**	–
Acquisition through business combinations	**–**	–	**–**	22,647
Addition	**434,079**	1,312,091	**434,079**	1,355,693
Adjustments	**5,591**	–	**5,591**	–
Less:				
Disposal	**–**	–	**–**	–
Termination/Transfers	**–**	–	**–**	–
Impairment	**–**	–	**–**	–
Closing balance	**1,751,761**	1,312,091	**1,818,010**	1,378,340

27. Right of used assets (contd.)

27. (b) Accumulated amortisation of right of used assets

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**238,584**	–	**247,472**	–
Acquisition through business combinations	**–**	–	**–**	6,185
Charge for the year	**286,994**	238,584	**299,013**	241,287
Disposal	**–**	–	**–**	–
Termination/Transfers	**–**	–	**–**	–
Closing balance	**525,578**	238,584	**546,485**	247,472
Carrying value as at 31 December	**1,226,183**	1,073,507	**1,271,525**	1,130,868

28 Investment properties

Accounting policy

Investment on land or a building or part of a building or both, held to earn rentals or capital appreciation or both, are classified as investment property.

Cost model

Investment properties excluding Investment buildings are measured (initially) at cost (LKAS 40 Sec. 56), including transaction costs. Fair value of Investment Properties is measured by the management on annual basis and is disclosed separately in notes to the financial statement.

Fair value

After recognition as Investment buildings, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and subsequent accumulated impairment losses. Revaluation shall be made at every three (03) years to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period. Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent-free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognising rental income on this basis.

28. Investment properties (contd.)

28. (a) Fair value of investment properties

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Land				
Opening balance	–	–	**316,095**	–
Acquisition through business combinations	–	–	–	316,095
Addition	–	–	–	–
Revaluation gain	–	–	**56,714**	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	**(144,924)**	–
Impairment	–	–	–	–
Closing balance	–	–	**227,885**	316,095
Building				
Opening balance	–	–	**17,220**	–
Acquisition through business combinations	–	–	–	17,220
Addition	–	–	–	–
Revaluation gain	–	–	**(2,952)**	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	**(5,076)**	–
Impairment	–	–	–	–
Closing balance	–	–	**9,192**	17,220

28. (b) Accumulated depreciation of investment properties

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Opening balance	–	–	–	–
Change for the year	–	–	–	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Closing balance	–	–	–	–
Net book value as at 31 December	–	–	**237,077**	333,315

Fair value gain of investment property has been recognised under other operating income.

SLSB has adopted policy to revalue Investment properties by every three (3) years time, thus Investment properties are measured at Fair value as per the LKAS 40 and revaluation done every three years time.

29 Goodwill and intangible assets

Accounting policy

The Group's intangible assets consist of the value of purchased computer software.

Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Useful economic life and amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the Income Statement in the year the asset is derecognised.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is 4 to 5 years (20% to 25% per annum).

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Computer software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally-developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally-developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

29. Goodwill and intangible assets (contd.)

Computer software (contd.)

The Bank and Group do not have any intangible assets except computer software purchased which has been disclosed below:

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Computer Software (Note 29.1)	**652,850**	535,870	**659,049**	536,606
Software under development (Note 29.2)	**35,111**	63,006	**35,111**	63,006
Total	**687,961**	598,876	**694,160**	599,612

29.1 Computer Software

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Cost/Valuation				
Opening balance	**1,542,038**	1,310,520	**1,555,363**	1,312,890
Acquisition through business combinations	**–**	–	**–**	10,380
Additions during the year	**417,097**	231,518	**423,146**	232,093
Disposal during the year	**–**	–	**–**	–
Closing balance	**1,959,135**	1,542,038	**1,978,509**	1,555,363
Less : Accumulated amortisation				
Opening balance	**1,006,168**	766,251	**1,018,758**	768,355
Acquisition through business combinations	**–**	–	**–**	10,093
Charge for the year	**300,117**	239,917	**300,702**	240,310
Disposal	**–**	–	**–**	–
Closing balance	**1,306,285**	1,006,168	**1,319,460**	1,018,758
(Less): Impairment	**–**	–	**–**	–
Net Book Value	**652,850**	535,870	**659,049**	536,606

29.2 Software under development

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Cost/Valuation				
Opening balance	**63,006**	31,806	**63,006**	31,806
Acquisition through business combinations	**–**	–	**–**	–
Additions during the year	**93,304**	31,200	**93,304**	31,200
Disposal during the year	**–**	–	**–**	–
Transfer/adjustment	**(121,199)**	–	**(121,199)**	–
Closing balance	**35,111**	63,006	**35,111**	63,006

30 Deferred tax assets/liabilities

Accounting policy

Net Deferred tax (Asset)/Liability of an entity cannot be set-off against another entity's deferred tax (Asset)/ Liabilities as there is no legally enforceable right to set-off. Detailed on deferred tax accounting policy is given in Note 13 on page 171.

The following table shows deferred tax recorded in the statement of financial position and changes recorded in the Income tax expense:

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Recognised under assets [30. (a)]	**(1,446,249)**	–	**(1,446,249)**	(338)
Recognised under liabilities [30. (b)]	**–**	482,241	**1,121**	483,005
Net deferred tax (Asset)/Liability Refer [30. (c) and 30. (d)]	**(1,446,249)**	482,241	**(1,445,128)**	482,668

30. (a) Deferred tax assets

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**(482,241)**	–	**(481,903)**	73
Convert to deferred tax liabilities	–	–	**(338)**	–
Charge for the year recognised in				
– Income Statement [Refer Note 13. (b)]	**480,978**	–	**480,978**	265
– Other comprehensive income	**1,447,512**	–	**1,447,512**	–
Closing balance	**1,446,249**	–	**1,446,249**	338

30. (b) Deferred tax liabilities

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**–**	1,135,612	**764**	1,135,878
Convert to deferred tax assets	**–**	–	**(338)**	–
Charge for the year recognised in				
– Income Statement [Refer Note 13. (b)]	**–**	281,849	**694**	282,348
– Other comprehensive income	**–**	(935,220)	**–**	(935,220)
Closing balance	**–**	482,241	**1,121**	483,005

30. Deferred tax assets/liabilities (contd.)

30. (c) Reconciliation of net Deferred tax (assets)/liabilities – Bank

	Statement of Financial Position		Profit or Loss		Other Comprehensive Income	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**691,823**	547,250	**144,574**	(35,213)	**–**	–
Revaluation surplus/(loss) on freehold land and building	**2,593,380**	2,182,129	**(3,841)**	–	**415,092**	–
Unrealised gain/(loss) on financial assets measured at fair Value through other comprehensive Income	**9,033**	–	**–**	–	**9,033**	31,979
	3,294,236	2,729,378	**140,733**	(35,213)	**424,125**	31,979
Deferred tax asset on:						
Retirement benefit obligations	**3,047,824**	1,407,218	**(231,031)**	(213,649)	**1,871,637**	967,199
Impairment provision	**1,692,661**	839,919	**852,742**	(103,412)	**–**	–
	4,740,485	2,247,137	**621,711**	(317,062)	**1,871,637**	967,199
Deferred tax effect on profit or loss and other comprehensive income for the year	**–**	–	**480,978**	(281,849)	**1,447,512**	935,220
Net deferred tax (asset)/liability	**(1,446,249)**	482,241	**–**	–	**–**	–

30. (d) Reconciliation of net Deferred tax (assets)/liabilities – Group

	Statement of Financial Position		Profit or Loss		Other Comprehensive Income	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**693,452**	548,501	**144,951**	(34,449)	**–**	–
Revaluation surplus/(loss) on freehold land and building	**2,593,380**	2,182,129	**(3,841)**	–	**415,092**	–
Unrealised gain/(loss) on financial assets measured at fair Value through other comprehensive Income	**9,033**	–	**–**	–	**9,033**	31,979
	3,295,865	2,730,630	**141,110**	(34,449)	**424,125**	31,979
Deferred tax asset on:						
Retirement benefit obligations	**3,048,332**	1,408,044	**(231,348)**	(213,385)	**1,871,637**	967,199
Impairment provision	**1,692,661**	839,919	**852,742**	(103,412)	**–**	–
	4,740,993	2,247,962	**621,394**	(316,797)	**1,871,637**	967,199
Deferred tax effect on profit or loss and other comprehensive income for the year	**–**	–	**480,284**	(282,348)	**1,447,512**	935,220
Net deferred tax (asset)/liability	**(1,445,128)**	482,668	**–**	–	**–**	–

31 Other assets

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Cost				
Notional Tax/WHT receivable	**–**	2,695,348	**–**	2,695,348
Receivables [refer Note 31.1]	**5,598,241**	5,402,236	**5,703,127**	5,505,302
Receivable form treasury on interest	**8,383,771**	17,134,591	**8,385,356**	17,134,968
Deposits and prepayments	**612,997**	599,420	**617,432**	608,996
Advance payment to Treasury (refer Note 31.2)	**3,520,000**	3,840,000	**3,520,000**	3,840,000
Sundry debtors	**17,613**	28,344	**17,613**	28,365
Unamortised cost on staff loans (Day 1 difference)	**4,726,737**	5,254,774	**4,726,737**	5,254,774
Other assets	**174,420**	243,211	**222,670**	302,362
Total	**23,033,780**	35,197,923	**23,192,936**	35,370,115

31.1 Receivables

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Cost				
Receivables	**5,722,613**	5,526,608	**5,847,974**	5,654,779
Less: Impairment	**(124,372)**	(124,372)	**(144,847)**	(149,477)
Net receivables	**5,598,241**	5,402,236	**5,703,127**	5,505,302

31.2 Advance payment to Treasury

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Mn. in 2012 and Rs. 2,000 Mn. in 2013 as confirmed by the Treasury to be set off against the profit within a period of six years starting from 2014. Effective from 1 January 2016, Treasury has agreed to set off the balance amount of Rs. 5,333 Mn. against the profit within a period of 10 years. There after Treasury has agreed to set off the balance amount of Rs. 4,800 Mn. against the profit within a period of 15 years effective from 1 January 2017.

32 Due to banks

Accounting policy

Due to banks represents overdrafts, call money borrowings, borrowing from banks and Repos by the subsidiary. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under interest expense. Foreign currency borrowings as at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the reporting date are recognised in profit or loss.

32. Due to banks (contd.)

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Foreign currency borrowings (Note 32.1)	**6,172,229**	12,022,691	**6,172,229**	12,022,691
Securities sold under repurchase (Repo) agreements	**6,372,108**	22,938,962	**6,849,085**	24,032,762
Other facilities	**318,000**	83,598	**318,391**	83,669
Total	**12,862,337**	35,045,251	**13,339,705**	36,139,122

32.1 Foreign currency borrowings

Name of lender	Loan value (USD Mn.)	Capital outstanding (USD Mn.)	Date of borrowing	Date of maturity
Commerz bank Finance and Covered Bond S.A.	100	33.32	31 October 2018	31 October 2021

33 Derivative financial instruments

The Bank and Group do not have any derivative financial instruments under the financial liabilities as at 31 December 2020.

34 Financial liabilities recognised through profit or loss

The Bank and Group do not have instruments under the financial liabilities recognised through profit or loss as at 31 December 2020.

35 Financial liabilities at amortised cost

Accounting policy

i. Due to depositors

Due to depositors include savings and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under Interest Expense.

ii. Securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a loan received by the Group, including accrued interest as a liability within "Securities sold under repurchase agreements", reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Due to depositors	**1,237,123,791**	1,016,574,286	**1,237,669,284**	1,015,635,421
Due to debt securities holders	**–**	–	**–**	–
Due to other borrowers	**8,159,591**	21,203,242	**19,656,090**	32,808,023
Total	**1,245,283,382**	1,037,777,528	**1,257,325,374**	1,048,443,444

35. Financial liabilities at amortised cost (contd.)

35.1 Analysis of amount due to depositors

35.1 (a) By product

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Savings deposits	**280,033,076**	218,550,833	**280,656,851**	219,130,009
Fixed deposits	**957,090,715**	798,023,453	**957,012,433**	796,505,412
Total	**1,237,123,791**	1,016,574,286	**1,237,669,284**	1,015,635,421

35.1 (b) By currency

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Sri Lankan Rupee	**1,221,733,252**	1,004,709,134	**1,222,278,744**	1,003,770,269
United State Dollar	**11,578,610**	8,449,477	**11,578,610**	8,449,477
Euro	**1,566,382**	1,323,498	**1,566,382**	1,323,498
Great Britain Pound	**1,186,206**	1,139,598	**1,186,206**	1,139,598
Australian Dollar	**1,058,641**	951,798	**1,058,641**	951,798
Japanese Yen	**701**	781	**701**	781
Total	**1,237,123,791**	1,016,574,286	**1,237,669,284**	1,015,635,421

36 Lease liabilities

Accounting policy

Initial measurement of lease liability

The lease liability is initially measured at the present value of the future lease rentals over the remaining lease period at commencement date.

Subsequent measurement of lease liability

The lease liability subsequently is measured by increasing the lease interest & reducing the lease payments.

Discount rate

The discount rate applied to determine the present value of future rentals is the Treasury Bond Rates for periods which are similar to lease periods published by the Central Bank. The period of the Treasury Bond is identical to lease tenure. If the Treasury Bond Rate is not available for the applicable tenure, the rate of the tenure which is lower than the lease tenure is applied.

36. Lease liabilities (contd.)

36. (a) Lease liabilities

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**1,066,882**	–	**1,121,441**	–
Acquisition through business combinations	**–**	–	**–**	15,772
Addition during the year	**399,600**	1,232,152	**399,600**	1,272,874
Lease interest for the year	**122,637**	94,343	**128,399**	95,106
Less: Paid during the year	**(318,629)**	(259,613)	**(332,786)**	(262,311)
Adjustment	**4,223**	–	**4,223**	–
Closing balance	**1,274,713**	1,066,882	**1,320,877**	1,121,441

36. (b) Maturity analysis – Lease liabilities

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Amount payable within one year	**231,426**	174,892	**236,151**	188,079
Amount payable within one to three years	**566,662**	330,776	**573,072**	349,438
Amount payable within three to five years	**217,683**	224,533	**222,750**	232,241
Amount payable after five years	**258,942**	336,681	**288,904**	351,683
Total	**1,274,713**	1,066,882	**1,320,877**	1,121,441

37 Debt securities issued

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Subordinated liabilities (Note 37.1)				
Debenture Issued by the Bank	**11,087,763**	6,006,411	**11,087,763**	6,006,411
Debenture Issued by other subsidiaries	**–**	–	**134,526**	263,986
	11,087,763	6,006,411	**11,222,289**	6,270,397
Non-subordinated liabilities (Note 37.2)				
Debenture Issued by the Bank	**20,685,990**	20,685,300	**20,685,990**	20,685,300
Total	**31,773,753**	26,691,711	**31,908,279**	26,955,697
Due within 1 year	**6,773,753**	691,711	**6,812,208**	767,172
Due after 1 year	**20,000,000**	26,000,000	**20,096,071**	26,188,525
Perpetual	**5,000,000**	–	**5,000,000**	–
Total	**31,773,753**	26,691,711	**31,908,279**	26,955,697

37. Debt securities issued (contd.)

37.1 Subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Balance as at 1 January	**6,000,000**	6,000,000	**6,000,000**	6,000,000
Amount borrowed during the year	**5,000,000**	–	**5,000,000**	–
Repayments/redemptions during the year	**–**	–	**–**	–
Sub total	**11,000,000**	6,000,000	**11,000,000**	6,000,000
Exchange rate variance	**–**	–	**–**	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)	**11,000,000**	6,000,000	**11,000,000**	6,000,000
Unamortised transaction cost	**–**	–	**–**	–
Net effect of amortised interest payable	**87,763**	6,411	**87,763**	6,411
Adjusted balance as at 31 December	**11,087,763**	6,006,411	**11,087,763**	6,006,411

37.1.1 Categories of subordinated liabilities

Fixed rate subordinated liabilities

Detail of debenture Issue

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance the Tier II Capital Adequacy Ratio and reduce the maturity mismatch between the asset and liability portfolio of the Bank.

The Bank intends to utilise the entire proceeds of the issue to expand its asset base in the ordinary course of business.

Outstanding subordinated liabilities of the Bank as at 31 December 2020 consisted of Rs. 6,000 Mn. Rated, Unsecured Subordinated and Redeemable debentures of Rs. 100/- issued on 29 December 2016 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry AA+(lka) rating from the Fitch Rating Lanka at the time of issuing the debenture.

Category	Face value	Interest rate %	Repayment terms	Issue date	Maturity date	Effective annual yield 2020 %	Effective annual yield 2019 %	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Issued by the Bank											
Fixed Rate – 13%	6,000,000	13 p.a.	At Maturity	29 December 2016	29 December 2021	**13.42**	13.42	**6,000,000**	6,000,000	**6,000,000**	6,000,000
Interest payable								**6,393**	6,411	**6,393**	6,411
Total								**6,006,393**	6,006,411	**6,006,393**	6,006,411

* Interest payment term is semi annual.

37. Debt securities issued (contd.)

Floating rate subordinated liabilities

Detail of debenture Issue

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance additional tier I Capital of the Bank and finance the lending activities of the Bank

Outstanding subordinated liabilities of the Bank as at 31 December 2020 consisted of Rs. 5,000 Mn. Unlisted, unsecured, subordinated, perpetual, rated debentures of Rs. 100/- issued on 27 October 2020 as private placement under the provision of the NSB Act No. 30 of 1971. The debenture carry [SL] AA (hyb) rating from ICRA Lanka.

						Effective annual yield		Bank		Group	
Category	Face value	Interest rate %	Repayment terms	Issue date	Maturity date	**2020** %	2019 %	**2020** Rs. '000	2019 Rs. '000	**2020** Rs. '000	2019 Rs. '000
Issued by the Bank											
Floating rate	5,000,000	Six (6) Month T bill rate + 1.50 p.a.	Perpetual	27 October 2020	Perpetual	**Floor rate 9.00**	–	**5,000,000**	–	**5,000,000**	–
Interest payable								**81,370**	–	**81,370**	–
Total								**5,081,370**	–	**5,081,370**	–

* Interest payment term is semi-annual.

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

37.2 Non-subordinated liabilities →

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

Detail debenture Issue

The objective of the issue of the Debenture is to partly finance the funding requirement of unwinding the USD/LKR Swap agreement with Central Bank of Sri Lanka. Outstanding debenture of the Bank as at 31 December 2020 consisted of Rs. 20,000 Mn. Unlisted, Rated, Senior, Unsecured, Redeemable debentures of Rs. 100/- issued on 28 August 2019 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry (SL) AAA (Stable) rating from the ICRA Lanka.

						Effective annual yield		Bank		Group	
Category	Face value (Rs. '000)	Interest rate %	Repayment terms	Issue date	Maturity date	**2020** %	2019 %	**2020** Rs. '000	2019 Rs. '000	**2020** Rs. '000	2019 Rs. '000
Issued by the Bank											
Fixed rate 3 year	13,677,000	11 p.a.	At maturity	10 September 2019	10 September 2022	**11.00**	11.00	**13,677,000**	13,677,000	**13,677,000**	13,677,000
Fixed rate 5 year	6,323,000	11.25 p.a.	At maturity	10 September 2019	10 September 2024	**11.25**	11.25	**6,323,000**	6,323,000	**6,323,000**	6,323,000
Interest payable								**685,990**	685,300	**685,990**	685,300
Total	20,000,000							**20,685,990**	20,685,300	**20,685,990**	20,685,300

* Interest payment term is annual.

38 Retirement benefit obligations

Accounting policy

The unfunded past service cost is recognised in Other Comprehensive Income immediately upon actuarial valuation.

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Provision for pension scheme I [Note 38. (a). 1.]	**7,048,753**	3,426,902	**7,048,753**	3,426,902
Provision for pension scheme II [Note 38 (a). 2.]	**316,287**	(126,250)	**316,287**	(126,250)
Provision for retired medical assistance scheme [Note 38. (a). 3.]	**3,520,045**	1,725,127	**3,520,045**	1,725,127
Provision for gratuity [Note 38. (a). 4.]	**–**	–	**31,345**	27,980
Total	**10,885,085**	5,025,779	**10,916,429**	5,053,759

38. (a) Defined benefit plans

The Bank has two separate pension schemes established, Pension Scheme I for permanent employees joined before 1 October 1995 and Pension Scheme II for permanent employees joined on or after 1 October 1995 and a retired medical assistance scheme for retired employees.

The assets of these schemes are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the trust deed/rules of the respective funds.

All the funds are subject to annual audits independent to the audit of the Bank, by a firm of Chartered Accountants appointed by the members and actuarial valuations are carried out at least once in every two years, as per the rules governing these funds.

A summary of retirement benefit obligations of the Bank as at 31 December 2020 are given below:

	Pension scheme I Rs. '000	**Pension scheme II Rs. '000**	**Retired medical assistance scheme Rs. '000**	**Total Rs. '000**
Present value of defined benefit obligation (PVDBO)	**(22,586,463)**	**(4,411,190)**	**(4,431,651)**	**(31,429,304)**
Fair value of plan assets	**15,125,251**	**4,094,336**	**609,286**	**19,828,873**
Payable through income statement	**412,459**	**568**	**302,320**	**715,346**
Net (liability) recognised in Statement of Financial Position	**(7,048,753)**	**(316,287)**	**(3,520,045)**	**(10,885,085)**

Bank has restated the Retirement benefit obligations balances as at 31 December 2019 due to adjustment made to fair value of the plan assets. A detail note for opening balance adjustments are given under the note No. 53 comparative figures and summary is given below:

As per 31 December 2019 (Audited)	Pension scheme I Rs. '000	Pension scheme II Rs. '000	Retired medical assistance scheme Rs. '000	Total Rs. '000
PVDBO as at 31 December 2019	(18,209,182)	(3,013,446)	(2,540,783)	(23,763,411)
Fair value of plan assets as at 31 December 2019	13,527,576	2,926,291	800,837	17,254,704
Net (liability) recognised in Statement of Financial Position	(4,681,606)	(87,155)	(1,739,946)	(6,508,707)

38. Retirement benefit obligations (contd.)

As per 31 December 2019 (Restated)	Pension scheme I Rs. '000	Pension scheme II Rs. '000	Retired medical assistance scheme Rs. '000	Total Rs. '000
PVDBO as at 31 December 2019	(18,209,182)	(3,013,446)	(2,540,783)	(23,763,411)
Fair value of plan assets as at 31 December 2019	13,527,576	2,926,291	800,837	17,254,704
Fair value adjustment to plan assets	1,254,704	213,405	14,819	1,482,928
Adjusted Fair value of plan assets as at 31 December 2019	14,782,280	3,139,696	815,656	18,737,632
Adjusted Net (liability)/assets recognised in SOFP	(3,426,902)	126,250	(1,725,127)	(5,025,779)

38. (a) 1 National Savings Bank Employees' Pension Scheme I

Pension Scheme I

An actuarial valuation of the Pension Scheme I was carried out as at 31 December 2020 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2020.

	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	**(22,586,463)**	(18,209,182)	**(22,586,463)**	**(18,209,182)**
Fair value of plan assets	**15,125,251**	14,782,280	**15,125,251**	**14,782,280**
Payable through income statement	**412,459**	–	**412,459**	–
Total	**(7,048,753)**	(3,426,902)	**(7,048,753)**	**(3,426,902)**
(b) Amount recognised in Income Statement				
Current service cost	**109,101**	88,952	**109,101**	**88,952**
Interest cost on benefit obligation	**380,185**	311,531	**380,185**	**311,531**
Net benefit expense	**489,286**	400,483	**489,286**	**400,483**
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	**29,561**	(250,796)	**29,561**	(250,796)
Experience (gain)/loss	**(140,412)**	664,380	**(140,412)**	664,380
(Gain)/ loss due to changes in assumptions	**4,392,552**	1,170,697	**4,392,552**	~~1,170,697~~
Actuarial (gain)/loss on plan assets	**40,149**	~~250,441~~	**40,149**	~~250,441~~
Difference in interest income on plan assets	**–**	–	**–**	–
Total	**4,321,851**	1,834,722	**4,321,851**	1,834,722
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**14,782,280**	14,591,825	**14,782,280**	**14,591,825**
Provision adjustment	**(29,325)**	250,796	**(29,325)**	**250,796**
Expected return on plan assets	**1,622,825**	~~1,630,550~~	**1,622,825**	**1,630,550**
Actual employer contribution	**776,589**	~~400,483~~	**776,589**	**400,483**
Benefits paid	**(1,986,969)**	~~(1,840,933)~~	**(1,986,969)**	**(1,840,933)**
Actuarial gain/(loss) on plan assets	**(40,149)**	(250,441)	**(40,149)**	**(250,441)**
Closing fair value of plan assets	**15,125,251**	14,782,280	**15,125,251**	**14,782,280**

38. Retirement benefit obligations (contd.)

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**18,209,182**	16,184,005	**18,209,182**	16,184,005
Interest cost	**2,003,010**	1,942,081	**2,003,010**	1,942,081
Current service cost	**109,101**	88,952	**109,101**	88,952
Benefits paid	**(1,986,969)**	(1,840,933)	**(1,986,969)**	(1,840,933)
(Gain)/loss due to changes in assumptions	**4,392,552**	1,170,697	**4,392,552**	1,170,697
Actuarial (gain)/loss on obligation	**(140,412)**	664,380	**(140,412)**	664,380
Closing defined benefit obligation	**22,586,463**	18,209,182	**22,586,463**	18,209,182
(f) Plan assets consists of followings:				
Treasury Bonds	**7,436,992**	7,150,100	**7,436,992**	**7,150,100**
Treasury Bills	**258,143**	–	**258,143**	–
Commercial Papers	–	150,462	–	**150,462**
Fixed Deposits	**1,249,026**	402,132	**1,249,026**	**402,132**
Securities purchased under resale agreements	**245,432**	186,636	**245,432**	**186,636**
Debentures	**6,046,776**	6,288,534	**6,046,776**	**6,288,534**
Trust Certificates	–	205,364	–	**205,364**
Cash at Bank	**31**	34,653	**31**	**34,653**
Other assets/(liabilities)	**(111,148)**	364,399	**(111,148)**	**364,399**
Total	**15,125,251**	14,782,280	**15,125,251**	**14,782,280**

	Bank and Group	
	2020 Rs. '000	2019 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**1,955,517**	1,914,651
Between 1-2 years	**3,624,168**	3,336,179
Between 3-5 years	**4,615,085**	4,017,986
Between 6-10 years	**5,635,073**	4,511,347
Beyond 10 years	**6,756,620**	4,429,019
Total	**22,586,463**	18,209,182

38. Retirement benefit obligations (contd.)

	Pension Scheme I 2020	Pension Scheme I 2019
(h) Actuarial assumption		
Future salary increment rate (%)	**6.50**	6.50
Discount rate (%)	**8.00**	11.00
Increase in future Cost of Living Allowance (COLA) (%)	**4.50**	4.50
Mortality	**GA 1983 mortality table**	GA 1983 mortality table
Retirement age	**60 years**	60 years
Normal form of payment	**Monthly**	Monthly

Turnover rate

Age	2020 %	2019 %
20	**0.3**	0.3
25	**0.3**	0.3
30	**0.3**	0.3
35	**0.3**	0.3
40	**0.3**	0.3
45	**0.3**	0.3
50	**0.3**	0.3
55	**10.0**	10.0
56	**10.0**	10.0
57	**10.0**	10.0
58	**10.0**	10.0
59	**10.0**	10.0

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group 2020		Bank and Group 2019	
	Pension Scheme I		Pension Scheme I	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	**22,669,528**	**22,506,802**	18,279,812	18,141,628
Discount rate	**20,912,872**	**24,514,026**	17,044,094	19,530,292

38. Retirement benefit obligations (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II

An actuarial valuation of the Pension Scheme II was carried out as at 31 December 2020 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2020.

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	**(4,411,190)**	(3,013,446)	**(4,411,190)**	(3,013,446)
Fair value of plan assets	**4,094,336**	3,140,376	**4,094,336**	3,140,376
Payable through income statement/adjustment	**568**	(680)	**568**	(680)
Total	**(316,287)**	126,250	**(316,287)**	126,250
(b) Amount recognised in Income Statement				
Current service cost	**446,634**	295,440	**446,634**	295,440
Interest cost on benefit obligation	**(16,817)**	(31,183)	**(16,817)**	(31,183)
FMC contribution	**(802)**	(708)	**–**	–
Net benefit expense	**429,015**	263,549	**429,817**	264,257
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	**(26,987)**	5,158	**(26,987)**	5,158
Experience (gain)/loss	**(149,663)**	79,048	**(149,663)**	79,048
(Gain)/loss due to changes in assumptions	**783,400**	500,048	**783,400**	500,048
Actuarial gain/(loss) on plan assets	**(39,101)**	31,114	**(39,101)**	31,114
Difference in interest income on plan assets	**–**	–	**–**	–
Total	**567,649**	615,368	**567,649**	615,368
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**3,140,376**	2,397,247	**3,140,376**	2,397,247
Provision adjustment	**25,951**	(5,158)	**25,951**	(5,158)
Expected return on plan assets	**348,296**	261,442	**348,296**	261,442
Actual employer contribution	**554,717**	528,138	**554,717**	528,138
Benefits paid	**(14,105)**	(10,180)	**(14,105)**	(10,180)
Actuarial gain/(loss) on plan assets	**39,101**	(31,114)	**39,101**	(31,114)
Closing fair value of plan assets	**4,094,336**	3,140,376	**4,094,336**	3,140,376

38. Retirement benefit obligations (contd.)

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**3,013,446**	1,918,831	**3,013,446**	1,918,831
Interest cost	**331,479**	230,259	**331,479**	230,259
Current service cost	**446,634**	295,440	**446,634**	295,440
Benefits paid	**(14,105)**	(10,180)	**(14,105)**	(10,180)
(Gain)/loss due to changes in assumptions	**783,400**	500,048	**783,400**	500,048
Actuarial (gain)/loss on obligation	**(149,663)**	79,048	**(149,663)**	79,048
Closing defined benefit obligation	**4,411,190**	3,013,446	**4,411,190**	3,013,446
(f) Plan assets consist of followings:				
Treasury Bonds	**2,495,367**	2,245,430	**2,495,367**	2,245,430
Fixed deposits	**1,632,767**	902,642	**1,632,767**	902,642
Savings	**328**	83	**328**	83
Other assets/(liabilities)	**(34,127)**	(7,779)	**(34,127)**	(7,779)
Total	**4,094,336**	3,140,376	**4,094,336**	3,140,376

	Bank and Group	
	2020 Rs. '000	2019 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**22,699**	15,559
Between 1-2 years	**59,554**	44,388
Between 3-5 years	**137,637**	93,334
Between 6-10 years	**379,566**	263,794
Beyond 10 years	**3,811,734**	2,596,371
Total	**4,411,190**	3,013,446

38. Retirement benefit obligations (contd.)

	Pension Scheme II 2020	Pension Scheme II 2019
(h) Actuarial assumption		
Future salary increment rate (%)	**6.50**	6.50
Discount rate (%)	**8.50**	11.00
Increase in future Cost of Living Allowance (COLA) (%)	**4.50**	4.50
Mortality	**GA 1983 Mortality table**	GA 1983 Mortality table
Retirement age	**60 years**	60 years
Normal form of payment	**Monthly**	Monthly

Turnover rate

Age	2020 %	2019 %
20	**0.3**	0.3
25	**0.3**	0.3
30	**0.3**	0.3
35	**0.3**	0.3
40	**0.3**	0.3
45	**0.3**	0.3
50	**0.3**	0.3
55	**10.0**	10.0
56	**10.0**	10.0
57	**10.0**	10.0
58	**10.0**	10.0
59	**10.0**	10.0

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme II (Bank and the Group)			
	2020		2019	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	**4,964,045**	**3,955,513**	3,367,065	2,719,816
Discount rate	**3,534,381**	**5,581,385**	2,425,873	3,796,297

38. Retirement benefit obligations (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB

An actuarial valuation of the Retired medical assistance scheme for the retired employees was carried out as at 31 December 2020 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2020.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December.

As at 31 December	2020 Rs. '000	2019 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position		
Present value of defined benefit obligation	**(4,431,651)**	(2,540,783)
Fair value of plan assets	**609,286**	815,656
Less:		
Payable through income statement	**302,320**	–
Total	**(3,520,045)**	(1,725,127)
(b) Amount recognised in Income Statement		
Current service cost	**111,052**	39,269
Interest cost on benefit obligation	**191,268**	148,165
Net benefit expense	**302,320**	187,434
(c) Amount recognised in Other Comprehensive Income (OCI)		
Provision adjustment	**13,676**	(1,045)
Experience (gain)/loss	**607,484**	858,204
(Gain)/loss due to changes in assumptions	**1,188,619**	151,996
Actuarial (gain)/loss on plan assets	**666**	8,637
Contribution from employees	**(15,527)**	(13,598)
Total	**1,794,918**	1,004,194
(d) Changes in fair value of plan assets are as follows:		
Opening fair value of plan assets	**815,656**	302,984
Provision adjustment	**(13,676)**	1,045
Expected return on plan assets	**88,218**	34,705
Actual employer contribution	**–**	687,434
Actual participants' contribution	**15,527**	13,598
Benefits paid	**(295,773)**	(215,474)
Actuarial gain/(loss) on plan assets	**(666)**	(8,637)
Closing fair value of plan assets	**609,286**	815,656
(e) Changes in present value of defined benefit obligation are as follows:		
Opening defined benefit obligation	**2,540,783**	1,523,918
Interest cost	**279,486**	182,870
Current service cost	**111,052**	39,269
Benefits paid	**(295,773)**	(215,474)
(Gain)/loss due to changes in assumptions	**1,188,619**	151,996
Actuarial (gain)/loss on obligation	**607,484**	858,204
Closing defined benefit obligation	**4,431,651**	2,540,783

38. Retirement benefit obligations (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB (contd.)

As at 31 December	**2020 Rs. '000**	2019 Rs. '000
(f) Plan assets consist of followings:		
Treasury Bonds	**279,619**	204,019
Commercial paper	**–**	100,000
Fixed deposits	**414,305**	329,033
Securities purchased under resale agreements	**–**	100
Trust certificates	**110,706**	211,313
Debentures	**116,040**	–
Savings	**180**	50
Other payable	**(311,564)**	(28,859)
Total	**609,286**	815,656

	Bank and Group	
	2020 Rs. '000	2019 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**252,523**	197,580
Between 1-2 years	**482,338**	363,232
Between 3-5 years	**660,025**	465,189
Between 6-10 years	**916,599**	584,812
Beyond 10 years	**2,120,166**	929,970
Total	**4,431,651**	2,540,783

	2020 %	2019 %
(h) Actuarial assumption		
Medical cost inflation rate	**5.00**	5.00
Discount rate	**8.00**	11.00

(i). Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group			
	2020		2019	
	1% increase	**1% decrease**	1% increase	1% decrease
Medical cost escalation rate	**5,101,514**	**3,891,720**	2,832,377	2,719,816
Discount rate	**3,927,244**	**5,066,798**	2,320,495	2,294,480

38. Retirement benefit obligations (contd.)

38. (a) 4 Gratuity plan – Bank and Group

Bank

With the establishment of Pension Scheme II, employees who joined the Bank on or after 1 October 1995 become members of the Pension Scheme II, thus are not entitled to the rights and privileges under Service Gratuity Scheme. However, where there are payments of termination gratuity before the entitlement of pension, the Bank recognises the expense on cash basis.

Group

The staff members of the subsidiary companies are not entitled for pension scheme and hence, they continue to be members of the Gratuity Plan as per the provisions of the Gratuity Act No. 12 of 1983.

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
(a) Net benefit expense (recognised under personal expenses)				
Current service cost	**–**	–	**3,497**	275
Interest cost on benefit obligation	**–**	–	**2,863**	3,150
Net benefit expense	**–**	–	**6,360**	3,425
(b) Provision for gratuity				
Defined benefit obligation as at 1 January	**–**	–	**27,980**	1,982
Acquisition through business combinations	**–**	–	**–**	21,195
Interest cost	**–**	–	**2,863**	3,150
Current service cost	**–**	–	**3,497**	275
Benefits paid	**–**	–	**–**	–
Actuarial (gain)/loss on obligation (recognised in OCI)	**–**	–	**(2,995)**	1,378
Defined benefit obligation as at 31 December	**–**	–	**31,345**	27,980

	FMC		SLSB	
	2020 %	2019 %	**2020 %**	2019 %
(c) Actuarial assumption				
Future salary increment rate	**1.87**	8.33	**6.50**	20
Discount rate	**7.98**	10.44	**9**	11
Mortality	**–**	–	**A67/70**	A67/70

38. Retirement benefit obligations (contd.)

38. (a) 4 Gratuity plan – Bank and Group (contd.)

	FMC – 2020		
Staff turnover rate and average future working lifetime			
Age group	**25-34**	**35-44**	**45<**
Staff turnover rate – %	**–**	**–**	**–**
Average future working lifetime – years	**28.5**	**20**	**13.3**

(d) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation (PVDBO) as illustrated below:

Values appearing in the Financial Statements are very sensitive to the changes in financial and non-financial assumptions used. Net impact to PVDBO has been illustrated below:

	FMC			
	2020		2019	
	1% increase	**1% decrease**	1% increase	1% decrease
Future salary increment rate	**303**	**(258)**	511	(433)
Discount rate	**(242)**	**287**	(422)	505

Assumptions
Financial assumptions – Rate of discount, salary increment rate
Demographic assumptions – Mortality, staff turn over, disability, Retirement age

39 Current tax liabilities

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Balance as at 1 January	**–**	–	**565,704**	(27,862)
Tax recoverable in 2019	**(2,695,348)**	–	**(2,695,348)**	–
Adjustment	**–**	–	**(38,627)**	–
Acquisition through business combinations	**–**	–	**–**	418,858
Charge for the year	**6,017,687**	–	**6,450,219**	297,664
Payment during the year	**(193,696)**	–	**(576,411)**	(122,956)
Balance as at 31 December	**3,128,643**	–	**3,705,537**	565,704

Note: Tax recoverable in 2019 was shown under other assets and it has been fully claimed from the income tax for the year of assessment 2020/21

40 Other provisions

No value to be disclosed under other provision as at 31 December 2020.

41 Other liabilities

Accounting policy

Other liabilities include provisions made in account of fees and expenses, salary related, and other expenses. These liabilities are recorded at amounts expected to be payable at the reporting date.

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Sundry creditors	**150,989**	250,968	**152,353**	262,268
Salary related payable	**1,344,480**	1,229,896	**1,347,168**	1,230,102
Other tax payable	**916,650**	839,093	**1,278,707**	843,348
Other payables	**4,287,097**	3,631,507	**4,475,760**	5,094,697
Total	**6,699,216**	5,951,464	**7,253,989**	7,430,415

42 Due to subsidiaries

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Payable to FMC	**3,750**	547	**–**	–
Total	**3,750**	547	**–**	–

Note: Refer Note 49.3 and 49.4 – Related party transaction on pages 237 and 238.

43 Stated capital/Assigned capital

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Authorised				
One billion ordinary shares of Rs. 10.00 each as at 1 January	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Balance as at 1 January (issued and fully paid)				
940 million ordinary shares of Rs. 10.00 each	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Issue of ordinary shares during the year	**–**	–	**–**	–
Total	**9,400,000**	9,400,000	**9,400,000**	9,400,000

44 Statutory reserve fund

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**3,562,872**	3,227,960	**3,571,214**	3,227,960
Transfer during the period – 5% of profit after tax	**505,396**	334,912	**519,149**	343,254
Closing balance	**4,068,268**	3,562,872	**4,090,363**	3,571,214

45 Retained earnings

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Balance as at 1 January	**8,194,507**	3,869,070	**10,964,046**	4,445,441
Opening balance adjustment (PYA)*	**–**	2,833,244	**882,070**	2,833,244
Restated opening balance as at 1 January	**8,194,507**	6,702,314	**11,846,116**	7,278,685
Profit for the year	**10,107,916**	6,381,170	**10,821,118**	8,712,910
Other comprehensive income	**(4,812,780)**	(2,487,084)	**(4,809,785)**	(2,488,461)
Transfers to other reserves	**(505,396)**	(334,912)	**(671,185)**	(472,106)
Contribution to National Insurance Trust Fund	**(101,079)**	(66,982)	**(101,079)**	(66,982)
Withholding tax on dividend	**–**	–	**–**	–
Dividend/levy	**(1,000,000)**	(2,000,000)	**(1,000,000)**	(2,000,000)
Balance as at 31 December	**11,883,168**	8,194,507	**16,085,184**	10,964,046

* Please refer note 53 comparative figures.

46 Other reserves

Bank 2020

	Opening balance at 1 January 2020 Rs. '000	Movement/ transfers Rs. '000	**Closing balance at 31 December 2020 Rs. '000**
General reserve	17,740,879	–	**17,740,879**
Revaluation reserve (net of tax)	5,611,188	1,067,380	**6,678,568**
OCI reserve	318,006	(752,935)	**(434,929)**
Cash flow hedging reserve	–	–	**–**
Foreign currency translation reserve	–	–	**–**
Other reserves (refer Notes 46.1 and 46.2)	1,097,810	1,463,736	**2,561,544**
Total	24,767,882	1,778,182	**26,546,061**

Bank 2019

	Opening balance at 1 January 2019 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2019 Rs. '000
General reserve	17,740,879	–	17,740,879
Revaluation reserve (net of tax)	5,611,188	–	5,611,188
OCI reserve	560,409	(242,403)	318,006
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (refer Notes 46.1 and 46.2)	419,999	677,811	1,097,810
Total	24,332,475	435,407	24,767,882

Group 2020

	Opening balance at 1 January 2020 Rs. '000	Movement/ transfers Rs. '000	**Closing balance at 31 December 2020 Rs. '000**
General reserve	17,740,879	–	**17,740,879**
Revaluation reserve (net of tax)	5,611,188	1,506,486	**7,117,674**
OCI reserve	283,502	(695,287)	**(411,785)**
Cash flow hedging reserve	–	–	**–**
Foreign currency translation reserve	–	–	**–**
Other reserves (refer Note 46.1, 46.2, 46.3)	1,811,331	1,615,773	**3,427,104**
Total	25,446,899	2,426,971	**27,873,870**

46. Other reserves (contd.)

Group 2019

	Opening balance at 1 January 2019 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2019 Rs. '000
General reserve	17,740,879	–	17,740,879
Revaluation reserve (net of tax)	5,611,188	–	5,611,188
OCI reserve	422,190	(138,688)	283,502
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (refer Note 46.1, 46.2, 46.3)	1,004,668	806,663	1,811,331
Total	24,778,924	667,975	25,446,899

46.1 Unclaimed deposit reserve →

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**1,095,626**	417,815	**1,095,626**	417,815
Transferred to share capital	**–**	–	**–**	–
Transferred during the year	**1,463,736**	677,811	**1,463,736**	677,811
Closing balance	**2,559,362**	1,095,626	**2,559,362**	1,095,626

In terms of the Section 47 of the National Savings Bank Act No. 30 of 1971 as amended by the Section 30 of the National Savings Bank (Amendment) Act No. 28 of 1995, where an amount lain dormant in a savings or deposit account for a period of ten years, it should be transferred to, Unclaimed Deposit Reserve. Accordingly amount transferred (net) to the Reserve during the year 2020, was Rs. 1,463.73 Mn.

46.2 Special reserve →

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Opening balance	**2,184**	2,184	**2,184**	2,184
Transferred during the year	**(1)**	–	**(1)**	–
Closing balance	**2,183**	2,184	**2,183**	2,184

The Special Reserve represents the amount transferred from the dormant accounts of customers where the aggregate of the amount dormant is less than Rs. 10.00 (Ten rupees).

The whole or such part of the monies lying to the credit of "Special Reserve" and "Unclaimed Deposit Reserve" may be capitalised and shares to the value of money capitalised may be issued in the name of Secretary to the Treasury. The entirety of the issue and fully paid share capital of Rs. 9,400 Mn. reflected in the Statement of Financial Position was issued by capitalising the Unclaimed Deposit Reserve time to time.

46. Other reserves (contd.)

46.3 Special risk reserve – (NSB Fund Management Co. Ltd.)

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Opening balance	**–**	–	**713,521**	584,669
Transferred during the year – 25% of profit after tax	**–**	–	**152,037**	128,852
Closing balance	**–**	–	**865,558**	713,521

In order to promote the safety, soundness and the stability of the primary dealer (PD) system and to build up PD capital base, primary dealers (PDs) are required to annually transfer a percentage of their profit after tax to a special risk reserve as follows, with effect from 1 July 2004.

I. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs. 400 Mn.
II. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs. 400 Mn.

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Other reserves				
Total other reserves	**2,561,544**	1,097,810	**3,427,103**	1,811,331

47 Non-controlling interest

Bank has two fully-owned subsidiaries. Therefore no values to be disclosed under non-controlling interest.

48 Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of finance guarantees, letters of credit, and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

48. Contingent liabilities and commitments (contd.)

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Commitments				
Commitment for unutilised credit facilities	**19,047,815**	5,108,362	**19,070,385**	5,120,152
Other commitments indirect credit facilities	**712,928**	718,367	**712,928**	718,367
Capital commitments (Note 48.1)	**1,782,622**	2,298,887	**1,811,829**	2,614,452
	21,543,365	8,125,616	**21,595,142**	8,452,971
Contingent liabilities				
Documentary credit	**264,341**	277,056	**264,341**	286,106
Guarantees	**1,979,393**	1,952,525	**1,990,842**	1,952,525
	2,243,734	2,229,581	**2,255,183**	2,238,631
Total commitment and contingencies	**23,787,099**	10,355,197	**23,850,325**	10,691,602

48.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below:

As at 31 December	Bank		Group	
	2020 Rs. '000	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Approved and contracted for	**1,782,622**	2,292,887	**1,811,829**	2,608,452
Approved but not contracted for	**–**	6,000	**–**	6,000
	1,782,622	2,298,887	**1,811,829**	2,614,452

49 Related party disclosures

Accounting policy

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures" i.e. Government of Sri Lanka, subsidiaries, post-employment benefit plans for the Bank's employees, Key Management Personnel (KMPs). Those transactions include lending activities, placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates. Particulars of transactions with related parties are tabulated below.

49. Related party disclosures (contd.)

49.1 Parent and ultimate controlling party →

National Savings Bank is a Government-owned bank.

49.2 Transactions with Government of Sri Lanka (Parent) and state controlled entities →

The financial dealings carried out with the Government of Sri Lanka and state-controlled entities for the year are disclosed below.

49.2.1 Transactions which are collectively significant

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Assets				
Loans to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Investments made on Government Securities	**740,919,614**	612,724,627	**757,344,761**	628,082,735
Investments on state and state-controlled entities	**174,278,175**	151,791,144	**178,366,937**	154,575,616
Securities purchased under resale agreements	**2,503,527**	795,713	**2,503,527**	795,713
Tax receivable (notional tax)	**–**	2,695,348	**–**	2,695,348
Postmaster-General's current account	**541,300**	413,785	**541,300**	413,785
Advance payment to Government	**3,520,000**	3,840,000	**3,520,000**	3,840,000
Other receivables from Government	**11,981,394**	20,580,561	**12,070,334**	20,669,501
Total	**935,819,010**	794,916,178	**956,421,858**	813,147,697
Liabilities				
Securities sold under repurchase agreements	**10,698,992**	14,778,087	**10,698,992**	14,778,087
Tax payable	**3,128,643**	–	**3,705,537**	565,704
Total	**13,827,635**	14,778,087	**14,404,529**	15,343,791
Commitment				
Undrawn loan commitment	**17,563,612**	3,275,522	**17,563,612**	3,275,522
Taxes paid				
Income tax	**6,017,687**	3,798,620	**6,449,560**	4,096,283
Value added tax	**3,786,717**	3,045,921	**4,006,877**	3,208,584
Nation building tax	**–**	366,157	**–**	383,614
Debt repayment levy	**–**	1,785,171	**–**	1,803,225
Contribution to consolidated fund – dividend/levy	**1,000,000**	2,000,000	**1,000,000**	2,000,000
Total	**10,804,404**	10,995,869	**11,456,437**	11,491,706

49.2.2 Transactions which are individually significant

Since the Bank is Government owned entity and as per NSB Act Bank should invest 60% of its deposit in Government Securities. Therefore Bank has significant transactions with GOSL in day-to-day operation which are collectively represent on above. Individualy significant transactions other than day-to-day operations are as follows:

- The Bank has converted Rs. 26,907.85 Mn. worth outstanding loans of KDU as debenture (covered by Treasury Guarantee) on 11 March 2020. Therefore it has been classified from loan and advance to debt and other instruments.
- The Bank has received Rs. 19,211 Mn. worth of Treasury Bonds from Government Treasury as partial settlement of interest receivables on senior citizens.

49. Related party disclosures (contd.)

49.3 Transactions with subsidiary company (NSB Fund Management Co. Ltd.)

The Bank has contributed Rs. 1,700 Mn. towards the share capital of the Company. The Company invested its funds in Treasury Bills, Treasury Bonds, and Repos during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Co. Ltd. on which service charges/custodian fee of Rs. 42 Mn. has been made for the year 2020 (Rs. 48.6 Mn. service charges/custodian fee on fee in 2019).

The Bank holds following balances with NSB Fund Management Co. Ltd.. at the reporting date.

As at 31 December	Bank	
	2020 Rs. '000	2019 Rs. '000
Assets		
Inter-company current account	–	9
Securities purchased under resale agreement	**1,043,134**	1,300
Other receivable	**926**	1,169
Liabilities		
Other payable	**3,750**	547
Commitment		
Undrawn loan commitment	**500,000**	–

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

For the year ended 31 December	Bank	
	2020 Rs. '000	2019 Rs. '000
Income		
Rent income	–	1,758
Dividend	**170,000**	–
Interest income reverse repo	**43,175**	10,859
Total	**213,175**	12,617
Expenses		
Service charges/custodian fees	**42,000**	48,600
Real Time Gross Settlement charges	**762**	1,242
Trustee fee	**1,250**	1,250
Interest expenses on repo's	**2,757**	23,521
Total	**46,769**	74,613

49. Related party disclosures (contd.)

49.4 Transactions with subsidiary company (Sri Lanka Savings Bank Limited) →

The Sri Lanka Savings Bank Limited (SLSBL) was established in July 2006 under the Banking Act and incorporated under the provision of the Companies Act. The Sri Lanka Savings Bank commenced business on 10 March 2008 as a state-owned Licensed Specialised Bank. The Bank has acquired SLSBL as a fully-owned subsidiary by paying Rs. 3,111 Mn. on 11 October 2019. The CBSL has given special approval to acquisition as budget proposal of 2016.

The Bank holds following balances with Sri Lanka Savings Bank Limited at the reporting date.

	Bank	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000
Liabilities		
Securities sold under repurchase agreement	**343,156**	264,330
Securities sold under repurchase agreement – Interest payables	**1,571**	1,564
Due to depositors	**482,404**	1,947,270
Due to depositors – Interest payables	**49,189**	67,773
Total	**876,320**	2,280,937

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

	Bank	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000
Expenses		
Interest expenses on securities sold under repurchase agreement	**24,220**	7,612
Interest expenses on due to depositors	**124,207**	31,676
Total	**148,427**	39,288

49. Related party disclosures (contd.)

49.5 Transactions with key managerial persons

49.5.1 Compensation to Key Management Personnel (KMPs)

As per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing, and controlling the activities of the Bank. Accordingly, Key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiaries, NSB Fund Management Co. Ltd.. and Sri Lanka Savings Bank Limited, Ex. Chairman's, Directors' GM/CEO's and DGM's.

	Bank	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000
Compensation to KMPs of the Bank		
Short-term employee benefit	**98,238**	99,717
Post-employement benefit	**16,393**	15,093
Total	**114,631**	114,810

In addition to the above, the Bank has also provided non-cash benefits to the KMPs in line with the approved benefit plans of the Bank.

(iii) Chairman's, Directors' GM/CEO's and DGMM's emoluments and fees amounted to Rs. 98.24 Mn. in 2020. (Rs. 99.72 Mn. in 2019).

49.5.2 Transactions, arrangements, and agreements involving Key Management Personnel (KMPs)

	Bank	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000
Assets		
Loans and advances	**55,699**	73,494

49.5.3 Net accommodation granted to related parties

(Disclosure under Rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka).

	Bank	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000
Key Managerial Persons		
Loan and advances	**55,699**	73,494
Total net accommodation	**55,699**	73,494
Regulatory capital	**50,236,350**	40,445,964
Net accommodation as a percentage of the Bank's regulatory capital (%)	**0.1**	0.2

49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank

Financial position transactions which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below:

The Bank holds following balances with post-employment benefit plans at the reporting date.

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Liabilities				
National Savings Bank Employees' Provident Fund				
Fixed deposits	**254,000**	155,000	**254,000**	155,000
Securities purchased under resale agreements	**15,500**	47,805	**15,500**	47,805
Debentures	**725,000**	325,000	**725,000**	325,000
National Savings Bank Employees' Pension Scheme I				
Fixed deposits	**996,050**	110,000	**996,050**	110,000
Securities purchased under resale agreements	**243,705**	187,017	**243,705**	187,017
Debentures	**2,000,000**	2,000,000	**2,000,000**	2,000,000
National Savings Bank Employees' Pension Scheme II				
Fixed deposits	**1,264,274**	656,053	**1,264,274**	656,053
Securities purchased under resale agreements	**–**	400	**–**	400
Medical Assistance Scheme for the Retired Employees of NSB				
Fixed deposits	**385,667**	306,475	**385,667**	306,475
Securities purchased under resale agreements	**–**	100	**–**	100
Widows'/Widowers' and Orphans Pension Fund				
Fixed deposits	**156,181**	95,711	**156,181**	95,711

Income statement transactions which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below in view of Bank:

	Bank		Group	
For the year ended 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Interest Income				
National Savings Bank Employees' Provident Fund	**18,566**	19,680	**18,566**	19,680
National Savings Bank Employees' Pension Scheme I	**3,340**	8,641	**3,340**	8,641
National Savings Bank Employees' Pension Scheme II	**–**	86	**–**	86
Medical Assistance Scheme for the Retired Employees of NSB	**–**	11	**–**	11
Interest Expenses				
National Savings Bank Employees' Provident Fund	**70,930**	38,077	**70,930**	38,077
National Savings Bank Employees' Pension Scheme I	**553,434**	271,732	**553,434**	271,732
National Savings Bank Employees' Pension Scheme II	**82,116**	30,895	**82,116**	30,895
Medical Assistance Scheme for the Retired Employees of NSB	**34,093**	10,586	**34,093**	10,586
Widows'/Widowers' and Orphans Pension Fund	**13,286**	2,705	**13,286**	2,705

49. Related party disclosures (contd.)

49.7 Due from other related parties

For the year ended 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Securities purchased under resale agreements – Entrust Securities PLC	**9,084**	19,063	**9,084**	19,063
Receivable from Entrust Securities PLC	**859,160**	859,160	**859,160**	859,160
Total	**868,244**	878,223	**868,244**	878,223

49.8 Due to other related parties

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Other Payable – Entrust Securities PLC	**734,788**	734,788	**734,788**	734,788
Securities sold under repurchase agreements – Entrust Securities PLC	**–**	–	**351,194**	357,755
Total	**734,788**	734,788	**1,085,982**	1,092,543

50 Net assets value per ordinary share

As at 31 December	Bank 2020 Rs. '000	Bank 2019 Rs. '000	Group 2020 Rs. '000	Group 2019 Rs. '000
Amount used as the numerator				
Shareholders' funds	**51,897,497**	45,925,261	**57,449,417**	49,382,159
Number of ordinary share used as the denominator				
Total number of shares	**940,000**	940,000	**940,000**	940,000
Net assets value per ordinary share (Rs.)	**55.21**	48.86	**61.12**	52.53

51 Litigation against the Bank and the Group

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows:

	Bank	
As at 31 December	**2020 Number**	2019 Number
Tribunal/Court		
Labour Tribunal	**11**	12
Industrial Court	**2**	2
Magistrate's Court	**2**	5
District Court	**82**	81
High Court/Civil Appellate High Court/Provincial High Court	**3**	3
Court of Appeal	**3**	2
Supreme Court	**1**	1

52 Events occurring after the reporting date

Accounting policy

Events occurring after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

Where necessary all material events after the reporting date have been considered and appropriate adjustments/ disclosures have been made in the Financial Statements as per the LKAS 10 on "Events after the Reporting Period".

USD 35 Mn. term loan facility – Bank

The Bank has obtained a term loan facility of USD 35 Mn. from Indian Bank and Indian Overseas Bank on 17 February 2021. There is no impact to the Financial Statement prepared for the year ended 31 December 2020 and relevant disclosures are made to comply with LKAS 10 on "Events after the Reporting Period".

Product	: USD term loan facility
Purpose	: To invest in Sri Lanka Development Bonds (SLDBs)
Security	: Mortgage of USD denominated SLDBs to the lenders
Tenure	: 1 year
Interest rate	: 6M LIBOR + 3.50 p.a. to be paid semi-annually
Capital repayment	: At maturity

Convert Rs. 59,365.66 Mn. loans into debenture

Further, Bank has converted Rs. 59,365.66 Mn. worth outstanding loans of RDA as debenture (covered by Treasury Guarantee) with effect from 1 January 2021.

53 Comparative figures

The comparative information is reclassified wherever necessary, to comply with current year's classification in order to provide better presentation. Intangible assets (computer software) has been classified separately from the property, plant and equipment.

	Note	2019 Audited balances Rs. '000	Reclassification Rs. '000	2019 Reclassified balances Rs. '000
Property, plant and equipment	26	14,163,454	(598,876)	13,564,578
Goodwill and intangible assets	29	–	598,876	598,876

53.1 Prior year adjustments of the Bank and the Group

Following adjustments have been made due to deferred tax and fair value changes in plan assets of retired benefit obligation to effect prior year. Accordingly a sum of Rs. 683,094,162.00 was adjusted to the equity as at 1 January 2019.

The detail is given below:

53.1.1 Prior year adjustments of the Bank

		Prior year adjustments			
Statement of Changes in Equity	Balances as at 31 December 2018 Rs. '000	Deferred tax** Rs. '000	Fair value changes in plan assets* Rs. '000	Total adjustment Rs. '000	Opening Balances as at 1 January 2019 Rs. '000
Revaluation reserve	7,793,317	(2,182,129)	–	(2,182,129)	5,611,188
OCI reserve	528,430	31,979	–	31,979	560,409
Retained earnings	3,869,070	1,597,000	1,236,244	2,833,244	6,702,314
Total equity	42,979,655	(553,150)	1,236,244	683,094	43,662,749

			Adjustments		
	Note	2019 Audited balances Rs. '000	Deferred tax Rs. '000	Fair value changes in plan assets Rs. '000	2019 Restated balances Rs. '000
Income Statement					
i. Income tax expenses	13	3,763,405	317,062	–	4,080,468
ii. Earnings per share on profit (Rs.)	14	7.13	(0.34)	–	6.79
Statement of comprehensive income					
i. Remeasurement of post-employment benefit obligations		(3,700,967)	–	246,684	(3,454,283)
ii. Deferred tax effect on post-employment benefit obligations		–	967,199	–	967,199
iii. Tax expense relating to items that will be reclassified to profit and loss		–	(31,979)	–	(31,979)
		(3,700,967)	935,220	246,684	(2,519,063)

Statement of Financial Position	Note	31 December 2019 Audited balances Rs. '000	Adjustments: Deferred tax Rs. '000	Adjustments: Fair value changes in plan assets Rs. '000	31 December 2019 Restated balances Rs. '000
Liabilities and equity					
i. Retirement benefit obligations	38	6,508,707	–	(1,482,928)	5,025,779
ii. Deferred tax liabilities	30	547,250	(65,009)	–	482,241
iii. Retained earnings	45	4,464,442	2,247,137	1,482,928	8,194,507
iv. Other reserves	46	26,950,010	(2,182,129)	–	24,767,882

53.1.2 Prior year adjustments of the Group

Statement of Changes in Equity	Balances as at 31 December 2018 Rs. '000	Prior year adjustments: Deferred tax** Rs. '000	Prior year adjustments: Fair value changes in plan assets* Rs. '000	Prior year adjustments: Total adjustment Rs. '000	Opening Balances as at 1 January 2019 Rs. '000
Revaluation reserve	7,793,317	(2,182,129)	–	(2,182,129)	5,611,188
OCI reserve	390,210	31,979	–	31,979	422,189
Retained earnings	4,445,441	1,597,000	1,236,244	2,833,244	7,278,685
Total equity	44,002,475	(553,150)	1,236,244	683,094	44,685,569

	Note	2019 Audited balances Rs. '000	Adjustments: Deferred tax Rs. '000	Adjustments: Fair value changes in plan assets Rs. '000	2019 Restated balances Rs. '000
Income Statement					
i. Income tax expenses	13	4,061,569	317,062	–	4,378,631
ii. Earnings per share on profit (Rs,)	14	9.61	(0.34)	–	9.27
Statement of Comprehensive Income					
i. Remeasurement of post-employment benefit obligations		(3,702,344)	–	246,684	(3,455,660)
ii. Deferred tax effect on post-employment benefit obligations		–	967,199	–	967,199
iii. Tax expense relating to items that will be reclassified to profit and loss		–	(31,979)	–	(31,979)
		(3,702,344)	935,220	246,684	(2,520,440)

Statement of Financial Position	Note	31 December 2019 Audited balances Rs. '000	Adjustments Deferred tax Rs. '000	Adjustments Fair value changes in plan assets Rs. '000	31 December 2019 Restated balances Rs. '000
Liabilities and equity					
i. Retirement benefit obligations	38	6,536,687	–	(1,482,928)	5,053,759
ii. Deferred tax liabilities	30	548,014	(65,009)	–	483,005
iii. Retained earnings	45	7,233,981	2,247,137	1,482,928	10,964,046
iv. Other reserves	46	27,629,027	(2,182,129)	–	25,446,899

*** Pension plan assets**
The pension plan assets were accounted for in prior years at cost instead of at fair value and effective from 1 January 2019 plan assets were fair valued and accounted. This has been resulted to increase in the plan assets to Rs. 1,236,243,972.00 as at 31 December 2018 and Rs. 246,684,251.00 for the year 2019 and decrease the net pension liability by Rs. 1,482,928,223.00 as at 31 December 2019 and in turn increased in retain earnings by Rs. 1,236,243,972.00 as at 31 December 2018 and increased in Other Comprehensive Income by Rs. 246,684,251.00 for the year 2019.

**** Deferred taxes**
Effective from 1 January 2019, a provision has been made for the deferred taxes for impairment, fixed assets revaluation, defined benefit plans and financial assets FVOCI. This has resulted to decrease the equity by Rs. 553,150,146.58 and increase the deferred tax liability by Rs. 553,150,146.58 at 31 December 2018.

During the year 2019 deferred tax asset has increased to Rs. 618,158,610.24 and retained earnings increased by Rs. 650,137,503.20. The adjustment to retained earning consisted of Rs. 967,199,222.55 from other comprehensive income and Rs. 317,061,719.35 from Income Statement. OCI reserve was decreased by Rs. 31,978,892.96 due to deferred tax of unrealised income of debt instruments at fair value through other comprehensive income.

54 Financial risk management

Overview

The Group is expose to financial risk, non-financial risks, and strategic risk arising from its operations. The Group manages these risks through its risk management framework, which evolves to accommodate changes in the business operating environment, better practice approaches, and regulatorly and community expectation.

Risk management framework

Integrated risk management framework of NSB encompasses policies and procedures covering various risks, mechanism to identify such risks, and effective measures to manage and mitigate risks.

Risk management framework of the Bank begins with the oversight of the Board of Directors. It has set up Board Integrated Risk Management Committee (BIRMC) to assist the Board of Directors in discharging its risk management responsibility. The Risk Management Division (RMD) independently reports to the Board through BIRMC. These Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management with meticulous focus.

The following management subcommittees, are responsible for the coordination of risk matters for each of the areas of risk management with meticulous focus:

- Operational Risk Management Committee (ORMC)
- Asset and Liability Management Committee (ALMC)
- Credit Committee (CC)
- Investment Committee (IC)
- IT Steering Committee (ITSC)
- Human Resource Committee (HRC)
- Branch Operation Steering Committee (BOSC)
- Corporate Procurement Committee (CPC)
- Performance Review Committee
- Marketing Committee
- Corporate Management Committee (CMC)

Internal Audit Division engages both regular and ad hoc reviews of risk management controls and procedures and the results are reported to the Board Audit Committee (BAC).

54. Financial risk management (Contd.)

Material risk types →

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Credit risk Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Group. The Group is primarily exposed to credit risk through • Residential mortgage lending; • Unsecured retail lending (Personal Guarantee) • Commercial lending; and • Large corporate (institutional) lending and markets exposures • Large Lending for Government institution • Lending for companies incorporated in outside the Sri Lanka	**Governning Policies** Credit Policies and Credit Risk Management Policy **Key Management Committee** Credit Committee	i. Credit Policies and Credit Risk Management Policy Framework. ii. Standardised credit evaluation using Credit Scoring System (CRESS) and Credit Rating System (RAM). iii. Delegation of Authority for credit approval. iv. Obtain quality collateral and maintaining LTV at policy levels. v. Risk appetite Framework: Monitoring of KRIs/KPIs against risk appetite limits and reporting to BIRMC and Board. • Assets Quality limits: Retail Credit Return, Corporate Credit Return • Portfolio Return limits: Retail Credit Return, Corporate Credit Return vi. Credit Limit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC/Board. • Sector Exposure Limits. vii. Credit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC and Board. - Portfolio level monitoring. - Monitoring of early warning indicators. - NPA monitoring. - Monitoring of Progress of the application of CRESS and RAM systems. viii. Loan Review Mechanism (LRM). ix. Capital allocation under Standardised Approach. x. Continuous training of credit staff at the Credit division and branch level. xi. Introduce Concentration limits • Credit Exposure Limits for Sectors • Credit Exposure Limits for R W A classes: Total credit Exposure, Corporate Lending/Investments xii. Computation of HHI and monitor against the Risk Appetite Levels.

54. Financial risk management (Contd.)

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Market risk (including equity risk) Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Group. The Group is primarily exposed to market risk through: • Traded market risk; • Interest Rate Risk in the Banking Book (IRRBB); • Structural foreign exchange risk; • Non-traded equity risk.	**Governning Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** Investment Committee	**Interest rate risk** i. Market Risk and Liquidity Risk Management Policy Framework. ii. Analyse the impact of interest rate movements and taking corrective actions by ALCO to minimise Impact on NIM. iii. ALCO is assigned with the responsibility to price the rate sensitive assets and liabilities. iv. ALCO assign with the responsibility to manage the rate sensitive assets and liabilities mix. v. ALCO requires the support of ALM Unit attached to Treasury Front Office. vi. Investments and trading in Government Securities are monitored within the Limits Framework. vii. Assess the vulnerability to interest rate risk on a continuous basis using tools such as Marking to Market, Duration and Stress Testing. Monitoring within the Risk Appetite and Limit Monitoring Framework and report to IC/ALCO/BIRMC/Board. **Equity risk** i. Equity risk is measured through equity VAR and Stress Testing. ii. Portfolio position, exposures and dealer limits and trading activities are monitored within the Limits Framework. iii. Equity VAR Id monitored against RAF iv. Dealing room voice recording are monitored daily basis to ensure sound market conduct. **Foreign exchange risk** i. Exposure limits are monitored within the limits framework. ii. Foreign currency dealing operation are monitored within the limits framework. iii. Foreign Exchange risk is measured using tools such as Net Open Position (NOP), Fx VaR and Stress testing and reporting to ALCO/BIRMC/Board

54. Financial risk management (Contd.)

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Liquidity and funding risk Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk). The Group is exposed to liquidity risk primarily through: • The funding mismatch between the Group's loans, investments and sources of funding.	**Governning Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** ALCO	i. Statutory requirement to maintain the investments in Government Securities (60% of deposits). ii. Cash flow management by Treasury Division. iii. Liquidity contingency planning. iv. Monitor statutory liquidity ratio such as SLAR, LCR, and NSFR. v. Monitor ratios under stock approach and funding liquidity risk under liquidity risk monitoring tools as per Basel III report to ALCO/BIRMC and Board. vi. Monitor maturity gaps and sensitive gaps against Risk Limits.

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Operational risk Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group is exposed to operational risk primarily through: • Process execution errors; • Cybersecurity losses; • Technology failures; • Data management issues; • Model risks; • Accounting, legal and taxation risks; • Third parties; • People (employment practice and workplace safety); • Fraud (external and internal); and • Non-technology business disruption	**Governning Policies** 1. Operational Risk Management Policy 2. Outsourcing Policy 3. Information Security Policy 4. Business Continuity Policy **Key Management Committee** Operational Risk Management Committee (ORMC)	**Theft or fraud risk** i. Fraud risk management and whistle-blowing policies/procedures ii. Internal control structure iii. Daily checks/audits iv. Key Operational Risk Indicators (KORIs) monitoring v. Loss event data monitoring vi. Risk Control Self-assesment (RCSA) vii. Root cause analysis **IT disruptions and data security** i. IT strategic planning to minimise technical obsolescene and to identify process regard to automation/upgrading of systems. ii. Disaster Recovery Planning (DRP) Payment Card Industry Data Security Standards (PCIDSS) Compliances. iii. Internal control/System Access controls: Access control/password protections etc. iv. Established an Information security unit headed by an Independent Chief Manager Information system Security (CMISS) v. Continous monitoring of Implementation of Information security policy, Baseline Security standards (BSS) for Information security. vi. Establish system-based incident reporting. **Cybersecurity risk** i. Conduct vulnerability assessments and take pre-emptive actions to minimise risk from identified vulnerabilities. ii. Improve ICT infrastructure to eliminate identified vulnerabilities and continuous monitoring of cyberspace/external attacks through proper tools.

54. Financial risk management (Contd.)

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Compliance risk Compliance risk is the risk of sanctions and financial loss the Group may suffer as a result of the Group's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities. The Group is exposed to compliance risk primarily through: • Regulatory and licencing obligations, including privacy and conflicts of interest obligations; • Financial crime [Anti-Money Laundering (AML), Counter Terrorism Financing (CTF), Anti-Bribery and Corruption, and Sanctions]; and • Poor conduct (product design and distribution, market conduct and employee misconduct).	**Governning Policies** 1. Compliance Policy 2. AML Policy 3. Related Party Transaction Policy **Key Management Committee** Operational Risk Management Committee	i. Compliance Officer directly report to BIRMC/Board ii. In-house systems/processes for AML and KYC monitoring. iii. Monitor within RAF.

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Insurance risk Insurance risk is the risk of loss due to the potential for events the Group has insured against occurring more frequently or with greater severity than anticipated.	**Governning Policies** Operational Risk Management Policy, Insurance obtained by the Bank 1. Bankers Indemnity Insurance Policy 2. Fire and Burglary Policy 3. Electronic Equipment Insurance Policy 4. Cyber Liability Insurance Policy 5. Electronic and Computer Crime Policy 6. Public Liability Policy 7. Vehicle Insurance Policy **Key Management Committee** Operational Risk Management Committee	i. Insurance recovery process is centralised under Administration Division and ensure the timely execution for necessary actions. ii. Policy itself set operational limits with regard to the implementation of insurance policies at branch level and Bank level. iii. Risk Management Division review insurance recovery status and reported to the Operational Risk Management Committee periodically. iv. Insurance recovery subject to the internal audit function and prudent provisioning is assured in financial statements under Financial Statement Audit conducted by Internal Audit Division.

54. Financial risk management (Contd.)

Description	Governning Policies and Key Management Committee	Key controls and mitigation strategies
Strategic risk Strategic risk is the risk of material stakeholder value destruction or less than planned value creation. The Group is exposed to strategic risk primarily through: • Changes in the Group's external and internal operating environments (including macroeconomic conditions, competitive forces, technology, regulatory, political and social trends, customer expectations and the environment); and • Risk associated with the process for strategy development and monitoring of strategy implementation	**Governning Policies** Integrated Risk Management Policy **Key Management Committee** Operational Risk Management Committee	i. Senior Management oversight. ii. Strategic Plan and Budgeting Process. iii. Establishment of Research and Development (R and D) Division to monitor general economic condition, competitor behaviour and report to support pre-emptive decision-making. iv. Monitor within RAF. v. Ensure Business Continuty Management System (BCMS)

Broad risk categories in focus →

The Bank is exposed to the following key risks from financial instruments:

54.1 Credit risk
54.1.1 Credit quality analysis
54.1.1.(a) Net exposure to credit risk by class of financial assets
54.1.1.(b) Management of the credit portfolio
54.1.1.(c) Credit quality (past due) by classes of financial assets
54.1.1.(d) Credit quality by classes of financial asset – stage wise
54.1.1.(e) Credit quality by rating of counterparty/obligor

54.2 Liquidity risk
54.2.1 Concentration of liquid assets
54.2.2 Remaining contractual period to maturity
54.2.3 Financial assets available to support future funding

54.3 Market risk
54.3.1 Market risk – Trading and non-trading exposure
54.3.2 Foreign exchange risk
54.3.3 Equity risk
54.3.4 Interest rate risk

54.4 Operational risk

54. Financial risk management (Contd.)

54.1 Credit risk

Credit Risk is the risk of losses resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank which could materialise from the banking book and both on or off balance sheet. The on-balance sheet credit risk arises mainly from notional value of financial products such as retail loans, corporate loans, loans to banks and financial institutions, loans to State Owned Enterprises (SOEs) and loans to the Government. The off-balance sheet credit risk arises from undrawn loan commitments.

Credit risk exposures of the Bank

The total credit exposure which is 37.9% of the Bank's total assets is the second major line of business (The investment in risk free securities is 56.6% of total assets). Hence the magnitude of credit risk is comparatively moderate to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

The credit exposure of the Bank is created from two main categories i.e. "lending to banks" and "lending to other customers" such as corporate and retail borrowers, Government and Government institutions.

54.1.1 Credit quality analysis

54.1.1 (a) Net exposure to credit risk by class of financial assets

The following tables show the maximum exposure and net exposure (fair value of any collateral held, value of risk free investments, Government guarantees and impairment provision made were deducted in arriving the net exposure) to credit risk by class of financial assets.

As at 31 December		**2020**		2019	
	Note	**Maximum exposure to credit risk Rs. '000**	**Net exposure Rs. '000**	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
Bank					
Cash and cash equivalents	16	**6,491,963**	**4,590,412**	5,376,715	4,435,614
Balances with central banks	17	**–**	**–**	–	–
Placements with banks	18	**13,253,499**	**13,253,499**	12,364,469	12,364,469
Derivative financial instruments	19	**19,897**	**19,897**	11,622	11,622
Financial assets recognised through profit or loss	20				
– measured at fair value		**11,221,746**	**1,675,748**	11,459,882	1,782,337
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**516,795,160**	**242,449,962**	454,394,957	182,933,575
– debt and other instruments	22	**754,233,344**	**7,416,551**	615,634,321	12,591,720
Financial assets measured at fair value through other comprehensive income	23	**15,271,822**	**2,769,948**	3,478,811	3,478,811
Total		**1,317,287,431**	**272,176,018**	1,102,720,778	217,598,148

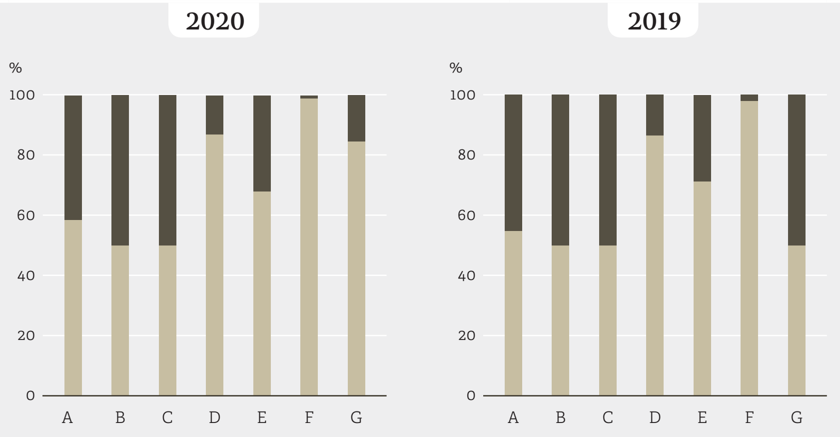
54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

54.1.1 Credit quality analysis (Contd.)

54.1.1 (a) Net exposure to credit risk by class of financial assets (Contd.)

Net exposure to credit risk – Bank Graph 42



● Maximum exposure to Credit Risk ● Net exposure

A – Cash and cash equivalents
B – Placements with banks
C – Derivative financial instruments
D – Financial assets recognised through profit or loss
E – Loans and advances
F – Debt and other instruments
G – Financial assets measured at FVOCI

As at 31 December	Note	2020 Maximum exposure to credit risk Rs. '000	2020 Net exposure Rs. '000	2019 Maximum exposure to credit risk Rs. '000	2019 Net exposure Rs. '000
Group					
Cash and cash equivalents	16	**6,598,595**	**4,692,385**	5,564,824	4,617,584
Balances with central banks	17	**6**	**6**	58	58
Placements with banks	18	**17,456,660**	**17,456,660**	15,745,184	15,745,184
Derivative financial instruments	19	**19,897**	**19,897**	11,622	11,622
Financial assets recognised through profit or loss	20				
– measured at fair value		**23,617,944**	**1,979,554**	22,130,273	1,782,337
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**517,833,067**	**242,776,238**	456,636,285	183,908,249
– debt and other instruments	22	**758,594,934**	**8,093,289**	619,567,786	12,847,174
Financial assets measured at fair value through other Comprehensive income	23	**16,059,841**	**2,909,959**	4,626,582	3,616,876
Total		**1,340,180,943**	**277,927,987**	1,124,282,614	222,529,084

54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

54.1.1 Credit quality analysis (Contd.)

54.1.1 (b) Management of the credit portfolio

Collateral and other credit enhancement

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

a. for corporate lending – Government guarantees, mortgages over immovable and movable fixed assets, inventory, corporate, and personal guarantees

b. for retail lending – mortgage over residential property, gold, cash, personal guarantees, vehicles.

Concentration of credit risk by product and sector

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (loan and advances) is given below:

Concentration by product

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Loans and advances				
Lease rental and receivable	**–**	–	**521,293**	472,747
Pawning	**42,398,950**	36,754,318	**42,437,557**	36,792,150
Staff loans	**11,330,749**	7,565,685	**11,479,896**	7,689,104
Term loans –				
Short term	**595,322**	922,161	**1,112,147**	922,161
Long term	**462,663,155**	408,213,779	**465,085,825**	411,338,726
Others –				
Sri Lanka Government Securities	**–**	–	**–**	–
Loan to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Securities purchased under resale agreements	**6,723,807**	3,130,955	**5,692,995**	3,150,592
Gross total	**525,786,983**	458,661,898	**528,404,713**	462,440,480

54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

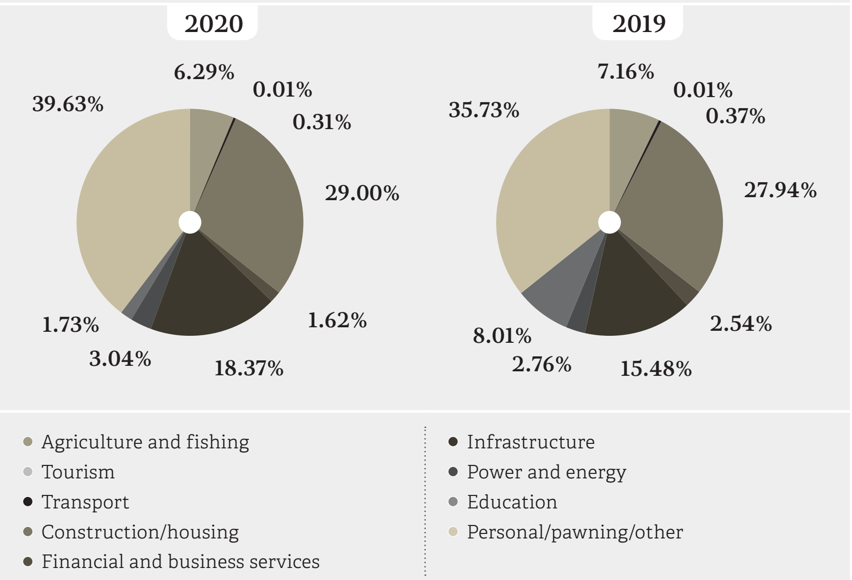
54.1.1 Credit quality analysis (Contd.)

54.1.1 (b) Management of the credit portfolio (Contd.)

Concentration by sector

	Bank		Group	
As at 31 December	**2020 Rs. '000**	2019 Rs. '000	**2020 Rs. '000**	2019 Rs. '000
Loans and advances				
Agriculture and fishing	**33,067,190**	32,854,359	**33,728,060**	33,543,973
Manufacturing	**–**	–	**767,442**	960,704
Tourism	**63,691**	46,264	**162,693**	136,981
Transport	**1,643,128**	1,695,189	**1,720,111**	1,763,130
Construction/housing	**152,457,313**	128,128,654	**152,905,473**	128,361,035
Traders	**–**	–	**623,817**	708,986
New economy	**–**	–	**40,889**	13,462
Others				
Financial and business services	**8,540,220**	11,663,968	**8,775,528**	11,663,968
Infrastructure	**96,579,186**	71,020,455	**96,742,844**	71,020,455
Power and energy	**15,963,463**	12,674,792	**15,963,463**	12,674,792
Education	**9,071,736**	36,724,769	**9,084,023**	36,724,769
Personal/pawning/other	**208,401,056**	163,853,448	**207,890,370**	164,868,223
Gross total	**525,786,983**	458,661,898	**528,404,713**	462,440,480

Sector classification of loans and advances – Bank Graph 43



54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

54.1.1 Credit quality analysis (Contd.)

54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank

As at 31 December 2020	Note	Neither past due nor impaired Rs. '000	Past due but not impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents (gross)*	16	**6,492,060**	–	–	**6,492,060**
Balances with central banks	17	–	–	–	–
Placements with banks (gross)*	18	**13,255,210**	–	–	**13,255,210**
Derivative financial instruments	19	**19,897**	–	–	**19,897**
Financial assets recognised through profit or loss					
– measured at fair value	20	**11,221,746**	–	–	**11,221,746**
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances (gross)*	21	**457,987,540**	**65,759,758**	**2,039,685**	**525,786,983**
– debt and other instruments (gross)*	22	**754,336,347**	–	–	**754,336,347**
Financial assets measured at fair value through other Comprehensive income	23	**15,271,822**	–	–	**15,271,822**
Total		**1,258,584,621**	**65,759,758**	**2,039,685**	**1,326,384,064**

* Collectively assessed for the impairment.

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

	Past due but not impaired				
As at 31 December 2020	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	**40,083,253**	**9,333,643**	**1,441,421**	**14,901,441**	**65,759,758**
	61%	**14%**	**2%**	**23%**	**100%**

Facilities in area's of one day and above considered as "past due".

54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

54.1.1 Credit quality analysis (Contd.)

54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank (Contd.)

As at 31 December 2019	Note	Neither past due nor impaired Rs. '000	Past due but not impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents (gross)*	16	5,377,505	–	–	5,377,505
Balances with central banks	17	–	–	–	–
Placements with banks (gross)*	18	12,366,455	–	–	12,366,455
Derivative financial instruments	19	11,622	–	–	11,622
Financial assets recognised through profit or loss					
– measured at fair value	20	11,459,882	–	–	11,459,882
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances (gross)*	21	416,280,504	40,692,576	1,688,818	458,661,898
– debt and other instruments (gross)*	22	615,648,775	–	–	615,648,775
Financial assets measured at fair value through other comprehensive income	23	3,478,811	–	–	3,478,811
Total		1,064,623,554	40,692,576	1,688,818	1,107,004,948

* Collectively assessed for the impairment.

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

	Past due but not impaired				
As at 31 December 2019	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	27,801,150	5,098,118	342,470	7,450,837	40,692,576
	68%	13%	1%	18%	100%

Facilities in area's of one day and above considered as "past due".

54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

54.1.1 Credit quality analysis (Contd.)

54.1.1 (d) Credit quality by classes of financial asset – stage wise – Bank

As at 31 December 2020		Amortised cost					Impairment provision				
	Note	Non-credit Impaired Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	**2,025,658**	**4,466,402**	–	–	**6,492,060**	**97**	–	–	**97**	**6,491,963**
Balances with central bank	17	–	–	–	–	–	–	–	–	–	–
Placements with banks	18	–	**13,255,210**	–	–	**13,255,210**	**1,711**	–	–	**1,711**	**13,253,499**
Derivative financial instruments	19	**19,897**	–	–	–	**19,897**	–	–	–	–	**19,897**
Financial assets recognised through profit or loss	20										
– measured at fair value		**11,221,746**	–	–	–	**11,221,746**	–	–	–	–	**11,221,746**
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	**34,409,823**	**453,892,412**	**20,543,620**	**16,941,127**	**525,786,983**	**2,948,093**	**897,811**	**5,145,919**	**8,991,823**	**516,795,160**
– debt and other instruments	22	**714,978,285**	**36,849,873**	**2,508,188**	–	**754,336,347**	**101,313**	**1,690**	–	**103,002**	**754,233,344**
Financial assets measured at fair value through other comprehensive income	23	**15,271,822**	–	–	–	**15,271,822**	–	–	–	–	**15,271,822**
Total		**777,927,231**	**508,463,898**	**23,051,809**	**16,941,127**	**1,326,384,064**	**3,051,214**	**899,501**	**5,145,919**	**9,096,633**	**1,317,287,431**

As at 31 December 2019		Amortised cost					Impairment provision				
	Note	Non-credit Impaired Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	1,082,288	4,295,217	–	–	5,377,505	790	–	–	790	5,376,715
Balances with central bank	17	–	–	–	–	–	–	–	–	–	–
Placements with banks	18	–	12,366,455			12,366,455	1,986	–	–	1,986	12,364,469
Derivative financial instruments	19	11,622	–	–	–	11,622	–	–	–	–	11,622
Financial assets recognised through profit or loss	20										
– measured at fair value		11,459,882	–	–	–	11,459,882	–	–	–	–	11,459,882
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	31,896,777	387,398,241	30,227,995	9,138,886	458,661,898	1,601,273	271,001	2,394,667	4,266,941	454,394,957
– debt and other instruments	22	602,630,531	11,222,987	1,795,257	–	615,648,775	8,602	5,852	–	14,454	615,634,321
Financial assets measured at fair value through other comprehensive income	23	3,478,811	–	–	–	3,478,811	–	–	–	–	3,478,811
Total		650,559,911	415,282,900	32,023,252	9,138,886	1,107,004,948	1,612,651	276,853	2,394,667	4,284,171	1,102,720,777

54. Financial risk management (Contd.)

54.1 Credit risk (Contd.)

54.1.1 Credit quality analysis (Contd.)

54.1.1.(e) Credit quality by rating of counter party/obligor

Ratings	Cash at Bank			Placement with Bank		
	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	2,188.77	0.01	0.001	–	–	–
AA+	4,152,900.96	49.74	0.001	7,999,540.08	93.14	0.001
AA	–	–	–	–	–	–
AA-	6,554.07	0.28	0.004	–	–	–
A+	61,284.81	4.51	0.007	1,935,752.57	172.86	0.009
A	183,636.07	18.27	0.010	2,764,816.26	462.11	0.017
A-	7,161.48	1.22	0.017	–	–	–
BBB+	–	–	–	–	–	–
BBB	38,922.10	13.93	0.036	–	–	–
BBB-	7,120.62	3.63	0.051	555,100.36	982.44	0.177
BB+	6,633.20	5.87	0.088	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Not rated	–	–	–	–	–	–
	4,466,402.08	97.46	0.002	13,255,209.26	1,710.55	0.013

Note:
1. Both individually and collectively assessed corporate loans have been considered for above rating based analysis.
2. Soverign rating of the country has been used for cross boarder corporate loans for which rating is not available.
3. For USD denominator lending and investment, LGD is considered as 20% while PD applicable to soverin rating is used.
4. LKR Loans granted to state own enterprises (SOE) are considered as AAA rating enterprises.

Loan and advances			Debt and other instruments		
Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
110,270,952.48	85.39	0.000	28,045,383.84	–	–
21,196,403.06	221.82	0.001	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
5,189,468.49	449.05	0.009	1,271,538.63	222.66	0.018
–	–	–	5,716,114.12	1,237.09	0.022
2,661,321.37	1,492.35	0.056	–	–	–
802,975.64	1,538.81	0.192	17,523.01	9.49	0.054
1,337,513.66	1,321.65	0.099	265,505.32	261.12	0.098
5,415,242.81	9,258.72	0.171	91,413.06	154.28	0.169
1,666,065.54	3,822.70	0.229	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
152,087.78	22,425.66	14.745	57,126.20	784.27	1.373
–	–	–	–	–	–
–	–	–	–	–	–
5,384,600.61	292,273.61	5.428	3,893,457.55	100,333.37	2.577
–	–	–	–	–	–
–	–	–	–	–	–
74,881.22	46,538.17	62.149	–	–	–
154,151,512.66	379,427.93	0.246	39,358,061.73	103,002.27	0.262

54. Financial risk management (Contd.)

54.2 Liquidity risk →

Liquidity risk is the Bank's inability to meet "on" or "off " balance sheet contractual and contingent financial obligations as they fall due, without incurring material losses.

54.2.1 Concentration of liquid assets

The Bank's regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintains a high Statutory Liquid Assets Ratio. Currently, the Bank maintains a liquidity ratio at 69.1% which is well above the statutory requirement of 20%. The investment in Government Securities represent 96.5% from the total liquid assets of the Bank.

	Bank	
As at 31 December	2020 Rs. '000	2019 Rs. '000
Liquidity assets ratio –		
Year end	69.1	60.2
30 June	68.1	57.5
Year beginning	60.2	54.9

Liquidity assets and liabilities of the Bank

	Domestic business unit	
	2020 Rs. '000	2019 Rs. '000
Total liquid assets		
Cash	**1,509,919**	1,173,535
Balances with licensed commercial bank	**17,538,920**	17,014,229
Money at call in Sri Lanka	**112**	–
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka	**38,749,538**	22,242,323
Goods Receipts/Liquid assets permitted under Extraordinary policy measures due to COVID-19	**7,857,999**	–
Cash item in the process of collection	**209,699**	251,951
Balances with banks abroad	**907,196**	807,801
Treasury Bonds	**734,666,337**	526,603,370
Sri Lanka development bonds	**3,802,701**	397,376
Total liquid assets (Daily average statutory liquid assets during the month of December)	**805,242,421**	568,490,585
Total liability based subject to minimum liquid assets requirement	**1,165,312,838**	944,400,252
Liquidity asset ratio (%)	**69.10**	60.20

Details are given as per regulatory reporting.

54. Financial risk management (Contd.)

54.2 Liquidity risk (Contd.)

54.2.2 Remaining contractual period to maturity – Bank and the Group

Disclosures are given in the Note 55 on pages 273 to 276.

54.2.3 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding:

		Bank					Group				
		Encumbered		Unencumbered		Total *	Encumbered		Unencumbered		Total*
As at 31 December 2020	Note	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000
Cash and cash equivalents	16	–	–	6,492,060	–	6,492,060	–	–	6,598,693	–	6,598,693
Balances with central banks	17	–	–	–	–	–	–	6	–	–	6
Placements with banks	18	–	–	13,255,210	–	13,255,210	–	–	17,461,961	–	17,461,961
Derivative financial instruments	19	–	–	–	19,897	19,897	–	–	–	19,897	19,897
Financial assets recognised through profit or loss	20										
– measured at fair value		–	–	11,221,746	–	11,221,746	9,355,916		14,262,028	–	23,617,944
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	525,786,983	–	525,786,983	–	–	528,404,713	–	528,404,713
– debt and other instruments	22	13,119,100	–	741,217,247	–	754,336,347	16,989,266	–	741,880,402	–	758,869,668
Financial assets measured at fair value through other comprehensive income	23	–	–	15,271,822	–	15,271,822	524,981	–	15,534,860	–	16,059,841
Total		13,119,100	–	1,313,245,067	19,897	1,326,384,064	26,870,163	6	1,324,142,656	19,897	1,351,032,721

* Figures are stated before the impairment provisions.

54. Financial risk management (Contd.)

54.2 Liquidity risk (Contd.)

54.2.3 Financial assets available to support future funding (Contd.)

As at 31 December 2019		Bank					Group				
		Encumbered		Unencumbered		Total *	Encumbered		Unencumbered		Total*
	Note	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000
Cash and cash equivalents	16	–	–	5,377,505	–	5,377,505	–	–	5,565,618	–	5,565,618
Balances with central banks	17	–	–	–	–	–	–	58	–	–	58
Placements with banks	18	–	–	12,366,455		12,366,455	–	–	15,749,077	–	15,749,077
Derivative financial instruments	19	–	–	–	11,622	11,622	–	–	–	11,622	11,622
Financial assets recognised through profit or loss	20										
– measured at fair value		–	–	11,459,882	–	11,459,882	10,216,289	–	11,913,983	–	22,130,273
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	458,661,898	–	458,661,898	–	–	462,440,480	–	462,440,480
– debt and other instruments	22	48,813,600	–	566,835,175	–	615,648,775	52,120,996	–	567,632,981	–	619,753,977
Financial assets measured at fair value through other comprehensive income	23	–	–	3,478,811	–	3,478,811	582,476	–	4,044,106	–	4,626,582
Total		48,813,600	–	1,058,179,726	11,622	1,107,004,948	62,919,761	58	1,067,346,246	11,622	1,130,277,688

* Figures are stated before the impairment provisions.

54.3 Market risk →

Market risk to the Bank stems from movements in market prices, in particular, changes in interest rates, foreign exchange rates and equity prices. Market risk is often propagated by other forms of financial risk such as credit and market liquidity risk. The risk of losses would arise from on-balance sheet as well as off-balance sheet activities.

Sources of market risk to NSB

The exposure to market risk arises to National Savings Bank from the following sources:

- Treasury securities portfolio (Government Securities and other permitted fixed income securities)
- Repo and reverse repo transactions
- Bank's operations in foreign currency
- Equity investments
- Derivatives
- Rate sensitive assets liabilities mismatch

54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.1 Market risk – trading and non-trading exposure

Following table present the assets and liabilities subject to market risk between fair value through profit or loss and other than fair value through profit or loss:

As at 31 December 2020	Note	Bank			Group		
		Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000	Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	**6,491,963**	–	**6,491,963**	**6,598,595**	–	**6,598,595**
Balances with central banks	17	–	–	–	**6**	–	**6**
Placements with banks	18	**13,253,499**	–	**13,253,499**	**17,456,660**	–	**17,456,660**
Derivative financial instruments	19	**19,897**	–	**19,897**	**19,897**	–	**19,897**
Financial assets recognised through profit or loss	20						
– measured at fair value		**11,221,746**	**11,221,746**	–	**23,617,944**	**23,617,944**	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	**516,795,160**	–	**516,795,160**	**517,833,067**	–	**517,833,067**
– debt and other instruments	22	**754,233,344**	–	**754,233,344**	**758,594,934**	–	**758,594,934**
Financial assets measured at fair value through other comprehensive income	23	**15,271,822**	–	**15,271,822**	**16,059,841**	–	**16,059,841**
Total		**1,317,287,431**	**11,221,746**	**1,306,065,685**	**1,340,180,943**	**23,617,944**	**1,316,562,999**

* Figures are stated after the impairment provisions.

As at 31 December 2020	Note	Bank			Group		
		Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000	Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	**12,862,337**	–	**12,862,337**	**13,339,705**	–	**13,339,705**
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		**1,237,123,791**	–	**1,237,123,791**	**1,237,669,284**	–	**1,237,669,284**
– due to debt securities holders		–	–	–		–	–
– due to other borrowers		**8,159,591**	–	**8,159,591**	**19,656,090**	–	**19,656,090**
Lease liability	36	**1,274,713**	–	**1,274,713**	**1,320,877**	–	**1,320,877**
Debt securities issued	37	**31,773,753**	–	**31,773,753**	**31,908,279**	–	**31,908,279**
Total		**1,291,194,186**	–	**1,291,194,186**	**1,303,894,234**	–	**1,303,894,234**

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54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.1 Market risk – trading and non-trading exposure (Contd.)

As at 31 December 2019	Note	Bank			Group		
		Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000	Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	5,376,715	–	5,376,715	5,564,824	–	5,564,824
Balances with central banks	17	–	–	–	58	–	58
Placements with banks	18	12,364,469	–	12,364,469	15,745,184	–	15,745,184
Derivative financial instruments	19	11,622	–	11,622	11,622	–	11,622
Financial assets recognised through profit or loss	20						
– measured at fair value		11,459,882	11,459,882	–	22,130,273	22,130,273	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	454,394,957	–	454,394,957	456,636,285	–	456,636,285
– debt and other instruments	22	615,634,321	–	615,634,321	619,567,786	–	619,567,786
Financial assets measured at fair value through other comprehensive income	23	3,478,811	–	3,478,811	4,626,582	–	4,626,582
Total		1,102,720,778	11,459,882	1,091,260,896	1,124,282,614	22,130,273	1,102,152,342

As at 31 December 2019	Note	Bank			Group		
		Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000	Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	35,045,251	–	35,045,251	36,139,122	–	36,139,122
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,016,574,286	–	1,016,574,286	1,015,635,421	–	1,015,635,421
– due to debt securities holders		–	–	–		–	–
– due to other borrowers		21,203,242	–	21,203,242	32,808,023	–	32,808,023
Lease Liability	36	1,066,882	–	1,066,882	1,121,441	–	1,121,441
Debt securities issued	37	26,691,711	–	26,691,711	26,955,697	–	26,955,697
Total		1,100,581,372	–	1,100,581,372	1,112,659,704	–	1,112,659,704

* Figures are stated after the impairment provisions.

54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.2 Foreign exchange risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. The Bank is exposed to foreign exchange rate risk that the value of a financial instrument or the investment in its foreign assets, may fluctuate due to changes in foreign exchange rates.

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the currency-wise NOP and the impact on Income Statement is shown in the tables below as at 31 December 2020:

	Bank			
	2020		2019	
	USD '000	**Rs. '000**	USD '000	Rs. '000
Net open position	**1,672**	**312,114**	906	164,403
Stress level	**Effect on income statement Rs. '000**	**Revised rupee position Rs. '000**	Effect on income statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	**15,606**	**327,720**	8,220	172,623
Shock of 10% on exchange rate (rupee depreciation)	**31,211**	**343,325**	16,440	180,843
Shock of 15% on exchange rate (rupee depreciation)	**46,817**	**358,931**	24,660	189,063

	Bank			
	2020		2019	
	JPY '000	**Rs. '000**	JPY '000	Rs. '000
Net open position	**244**	**442**	(1,935)	(3,232)
Stress level	**Effect on income statement Rs. '000**	**Revised rupee position Rs. '000**	Effect on income statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	**22**	**464**	(162)	(3,394)
Shock of 10% on exchange rate (rupee depreciation)	**44**	**486**	(323)	(3,555)
Shock of 15% on exchange rate (rupee depreciation)	**66**	**508**	(485)	(3,717)

	Bank			
	2020		2019	
	GBP '000	**Rs. '000**	GBP '000	Rs. '000
Net open position	**567**	**144,178**	511	121,775
Stress level	**Effect on income statement Rs. '000**	**Revised rupee position Rs. '000**	Effect on income statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	**7,209**	**151,387**	6,090	127,865
Shock of 10% on exchange rate (rupee depreciation)	**14,418**	**158,596**	12,180	133,955
Shock of 15% on exchange rate (rupee depreciation)	**21,627**	**165,805**	18,270	145,448

54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.2 Foreign exchange risk (Contd.)

	Bank			
	2020		2019	
	EUR '000	Rs. '000	EUR '000	Rs. '000
Net open position	**7,191**	**1,650,507**	9,264	1,885,075
Stress level	**Effect on income statement Rs. '000**	**Revised rupee position Rs. '000**	Effect on income statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	**82,525**	**1,733,032**	94,252	1,979,327
Shock of 10% on exchange rate (rupee depreciation)	**165,051**	**1,815,558**	188,504	2,073,579
Shock of 15% on exchange rate (rupee depreciation)	**247,576**	**1,898,083**	282,756	2,167,831

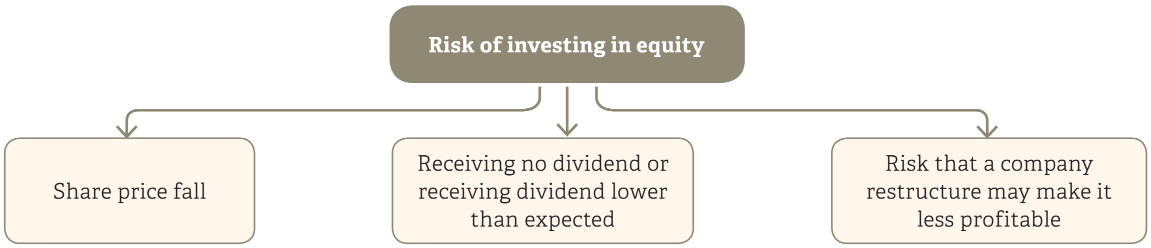
54.3.3 Equity risk

Equity risk is the risk that one's investments will depreciate because of stock market dynamic causing one to lose money.

The investment in equity represent 0.33% of the total assets while investments in quoted and unquoted equity are 0.31% and 0.02% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the return on equity investments. The investment in unquoted companies are made due to policy decisions on market and economic development and strategic reasons.

The Bank conducts mark-to-market calculations on a monthly, quarterly and on a need basis to identify the impact due to changes in equity prices.

Risk of investing in equity may occurred in followings ways.



54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.3 Equity risk (Contd.)

Equity price shock

The table below summarises the impact (both to the Income Statement and to the Statement of Comprehensive Income).

		Bank and Group					
		2020			2019		
	Note	**Financial assets recognised through profit or loss Rs. '000**	**Financial assets measured at FVOCI Rs. '000**	**Total Rs. '000**	Financial assets recognised through profit or loss Rs. '000	Financial assets measured at FVOCI Rs. '000	Total Rs. '000
Market value of equity securities as at 31 December	20 and 23	**1,675,748**	**2,514,374**	**4,190,122**	1,782,337	3,208,101	4,990,438

Stress Level	2020			2019		
	Impact to P&L Rs. '000	**Impact to OCI Rs. '000**	**Impact to equity Rs. '000**	Impact to P&L Rs. '000	Impact to OCI Rs. '000	Impact to equity Rs. '000
Shock of 5% on equity prices (upward)	**83,787**	**125,719**	**209,506**	89,117	160,405	249,522
Shock of 5% on equity prices (downward)	**(83,787)**	**(125,719)**	**(209,506)**	(89,117)	(160,405)	(249,522)
Shock of 10% on equity prices (upward)	**167,575**	**251,437**	**419,012**	178,234	320,810	499,044
Shock of 10% on equity prices (downward)	**(167,575)**	**(251,437)**	**(419,012)**	(178,234)	(320,810)	(499,044)
Shock of 15% on equity prices (upward)	**251,362**	**377,156**	**628,518**	267,351	481,215	748,566
Shock of 15% on equity prices (downward)	**(251,362)**	**(377,156)**	**(628,518)**	(267,351)	(481,215)	(748,566)
Shock of 20% on equity prices (upward)	**335,150**	**502,875**	**838,024**	356,467	641,620	998,088
Shock of 20% on equity prices (downward)	**(335,150)**	**(502,875)**	**(838,024)**	(356,467)	(641,620)	(998,088)

54. Financial risk management (Contd.)

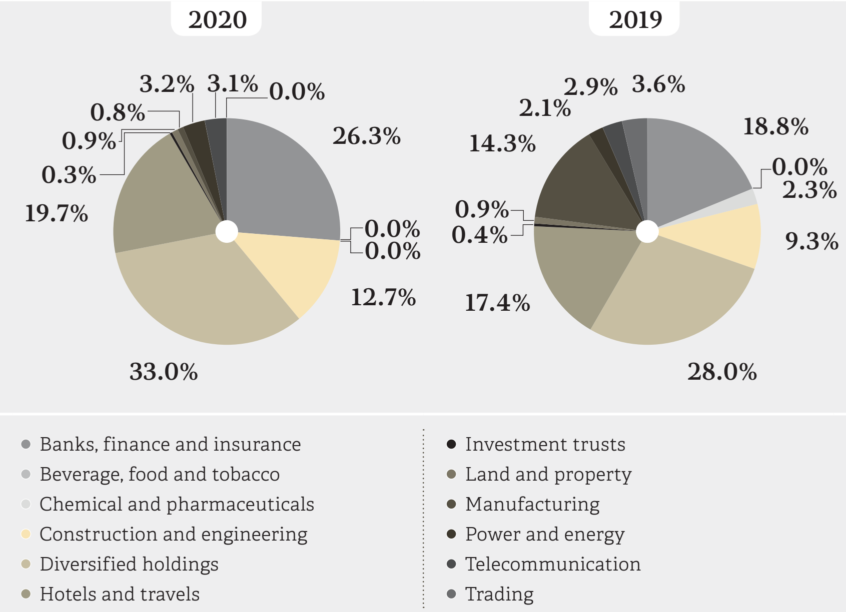
54.3 Market risk (Contd.)

54.3.3 Equity risk (Contd.)

Following table presents the Bank's diversification of trading portfolio to minimise the risk associated with particular sector:

As at 31 December	2020				2019			
Industry	Cost Rs. '000	As % of total cost %	Market value Rs. '000	As % of total market value %	Cost Rs. '000	As % of total cost %	Market value Rs. '000	As % of total market value %
1. Banks, finance and insurance	**626,261**	**25.8**	**390,390**	**26.3**	499,341	16.9	302,655	18.8
2. Chemical and pharmaceuticals	**–**	**–**	**–**	**–**	39,543	1.3	36,282	2.3
3. Construction and engineering	**403,299**	**16.6**	**188,774**	**12.7**	403,299	13.7	150,811	9.3
4. Diversified holdings	**601,729**	**24.7**	**489,771**	**33.0**	678,351	23.0	450,526	28.0
5. Hotels and Travels	**623,791**	**25.7**	**292,268**	**19.7**	623,790	21.1	279,621	17.4
6. Investment trusts	**11,307**	**0.5**	**5,131**	**0.3**	11,307	0.4	6,297	0.4
7. Land and property	**23,777**	**1.0**	**13,586**	**0.9**	23,777	0.8	15,096	0.9
8. Manufacturing	**12,069**	**0.5**	**12,308**	**0.8**	290,557	9.8	230,325	14.3
9. Power and energy	**46,066**	**1.9**	**46,987**	**3.2**	46,066	1.6	34,550	2.1
10. Telecommunication	**81,332**	**3.3**	**46,356**	**3.1**	81,332	2.8	45,982	2.9
11. Trading	**259**	**0.0**	**85**	**0.0**	253,948	8.6	57,862	3.6
Subtotal	**2,429,889**	**100**	**1,485,655**	**100**	2,951,311	100	1,610,007	100
12. Unit trust	**95,110**	**3.9**	**190,093**	**8.4**	95,110	2.8	172,330	8.4
Total	**2,524,999**		**1,675,748**		3,046,421		1,782,337	

Market value of investment in equity shares by Industry – Bank and Group Graph 44



54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.4 Interest rate risk

Interest rate risk is the risk that an investment's value will change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank's major source of funding is deposits which represent 90.81% of total on balance sheet liabilities. of this, 22.64% represent savings deposits where 77.36% represent term deposits.

54.3.4.1 Exposure to interest rate risk

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Bank's Income Statement as at the reporting date, due to change in interest rates with all other variables held constant in less than one year maturity bucket.

	2020		2019	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
Net Interest Income (NII)				
Change in 25 bps	**(1,563,312)**	**1,563,312**	(1,425,250)	1,425,250
Change in 50 bps	**(3,126,623)**	**3,126,623**	(2,850,501)	2,850,501
Change in 100 bps	**(6,253,246)**	**6,253,246**	(5,701,002)	5,701,002

54.3.4.2 Interest rate risk – sensitivity analysis

Bank's interest rate sensitivity report as at 31 December 2020 is presented below:

Bank	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-bearing assets	**39,467,619**	**105,935,030**	**153,215,641**	**286,246,008**
Bank balances and placements	**2,204,418**	**4,588,344**	**8,712,799**	**15,300,937**
Financial assets recognised through profit or loss – measured at fair value	**13,712**	**108,491**	**4,067,029**	**4,067,029**
Financial assets at amortised cost – loans and advances	**26,804,113**	**41,299,983**	**65,345,728**	**133,411,110**
– debt and other instruments	**10,363,460**	**59,799,166**	**73,439,812**	**131,816,658**
Financial assets measured at fair value through other comprehensive income	**81,916**	**139,045**	**1,650,274**	**1,650,274**
Interest-bearing liabilities	**224,602,075**	**603,790,178**	**834,401,890**	**1,238,119,966**
Due to banks	**2,430,513**	**6,693,410**	**9,783,329**	**12,862,337**
Financial liabilities at amortised cost – due to depositors	**214,059,402**	**588,964,699**	**816,379,018**	**1,210,324,285**
– due to debt securities holders	**–**	**–**	**–**	**–**
– due to other borrowers	**8,112,160**	**8,132,070**	**8,151,779**	**8,159,591**
Debt securities issued	**–**	**–**	**87,763**	**6,773,753**
Net rate sensitive assets (liabilities)	**(185,134,456)**	**(497,855,149)**	**(681,186,248)**	**(951,873,958)**
Interest rate sensitivity ratio (%)	**18**	**18**	**18**	**23**

54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.4 Interest rate risk (Contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (Contd.)

Group's interest rate sensitivity report as at 31 December 2020 is presented below:

Group	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-bearing assets	**42,510,444**	**114,315,188**	**164,353,595**	**299,847,885**
Bank balances and placements	3,231,949	6,957,136	12,168,612	19,336,015
Financial assets recognised through profit or loss				
– measured at fair value	1,661,488	5,051,819	10,166,302	12,478,192
Financial assets at amortised cost				
– loans and advances	26,813,821	41,329,107	65,449,180	132,620,086
– debt and other instruments	10,712,331	60,811,266	74,892,412	133,736,503
Financial assets measured at fair value through Other comprehensive income	90,855	165,861	1,677,089	1,677,089
Interest-bearing liabilities	**228,424,642**	**615,257,881**	**846,770,175**	**1,250,369,964**
Due to banks	3,052,256	8,558,640	11,648,559	13,339,705
Financial liabilities at amortised cost				
– due to depositors	214,236,794	589,496,874	817,046,404	1,210,730,499
– due to debt securities holders	–	–	–	–
– due to other borrowers	11,090,750	17,067,841	17,852,923	19,391,481
Debt securities issued	44,842	134,526	222,289	6,908,279
Net rate sensitive assets (liabilities)	(185,914,198)	(500,942,692)	(682,416,581)	(950,522,079)
Interest rate sensitivity ratio (%)	19	19	19	24

54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.4 Interest rate risk (Contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (Contd.)

Bank's interest rate sensitivity report as at 31 December 2019 is presented below:

Bank	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-bearing assets	24,109,059	54,473,950	105,233,925	189,860,883
Bank balances and placements	2,227,801	4,370,486	7,605,376	13,785,272
Financial assets recognised through profit or loss				
– measured at fair value	4,712	87,155	194,238	194,238
Financial assets at amortised cost				
– loans and advances	14,849,266	31,018,749	50,465,293	104,929,753
– debt and other instruments	7,027,280	18,997,560	46,969,018	70,951,620
Financial assets measured at fair value through Other comprehensive income	–	–	–	–
Interest-bearing liabilities	191,275,043	516,247,217	728,691,526	1,048,778,283
Due to banks	5,616,289	17,986,097	26,101,562	29,098,678
Financial liabilities at amortised cost				
– due to depositors	171,429,048	480,253,272	682,021,373	997,784,652
– due to debt securities holders	–	–	–	–
– due to other borrowers	14,229,706	18,007,848	19,876,880	21,203,242
Debt securities issued	–	–	691,711	691,711
Net rate sensitive assets (liabilities)	(167,165,984)	(461,773,267)	(623,457,601)	(858,917,400)
Interest rate sensitivity ratio (%)	13	11	14	18

54. Financial risk management (Contd.)

54.3 Market risk (Contd.)

54.3.4 Interest rate risk (Contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (Contd.)

Group's interest rate sensitivity report as at 31 December 2019 is presented below:

Group	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-bearing assets	25,560,709	57,030,319	112,777,982	201,532,457
Bank balances and placements	3,359,980	6,234,335	11,660,435	17,173,871
Financial assets recognised through profit or loss				
– measured at fair value	71,429	287,306	2,657,276	7,183,051
Financial assets at amortised cost				
– loans and advances	14,964,102	31,363,256	51,064,664	106,037,551
– debt and other instruments	7,150,109	19,100,154	47,350,339	71,092,716
Financial assets measured at fair value through Other comprehensive income	15,089	45,268	45,268	45,268
Interest-bearing liabilities	195,121,278	527,785,925	740,787,652	1,059,707,010
Due to banks	5,616,313	17,986,169	26,101,633	30,192,550
Financial liabilities at amortised cost				
– due to depositors	171,469,630	480,375,018	682,266,294	996,260,877
– due to debt securities holders	–	–	–	–
– due to other borrowers	17,947,340	29,160,752	31,464,028	32,297,886
Debt securities issued	87,995	263,986	955,697	955,697
Net rate sensitive assets (liabilities)	(169,560,569)	(470,755,606)	(628,009,670)	(858,174,553)
Interest rate sensitivity ratio (%)	13	11	15	19

54.4 Operational risk →

The BASEL Committee on Banking Supervision defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational Risk Management Framework

Bank has a conducive Operational Risk Management (ORM) framework to achieve more efficient, transparent, profitable and sustainable business operations. It comprises with well structured Governance, Policy framework and Risk management processes. The operational risk of the Bank is reported to the ERMC, BIRMC and the Board by Operational Risk Management Unit of the Risk Management Division.

55 Maturity analysis

Bank	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2020 Rs. '000**	Total as at 31 December 2019 Rs. '000
Assets with contractual maturity (interest-bearing asset)							
Cash and cash equivalents	2,047,439	–	–	–	–	**2,047,439**	1,420,802
Placements with banks	2,540,906	10,712,593	–	–	–	**13,253,499**	12,364,469
Financial assets recognised through profit or loss							
– measured at fair value	108,491	3,958,537	1,173,802	980,972	3,324,196	**9,545,998**	9,677,546
Financial assets at amortised cost							
– loans and advances	41,299,983	92,111,127	138,223,494	84,627,679	160,532,877	**516,795,160**	454,394,957
– debt and other instruments	59,799,166	72,017,491	175,340,531	223,721,591	223,354,565	**754,233,344**	615,634,321
Financial assets measured at fair value through other comprehensive income	139,045	1,511,229	9,323,430	–	1,528,170	**12,501,874**	–
	105,935,030	180,310,977	324,061,257	309,330,242	388,739,808	**1,308,377,314**	1,093,492,097
Other assets (non-interest-bearing assets)							
Cash and cash equivalents	4,444,524	–	–	–	–	**4,444,524**	3,955,913
Derivative financial instruments	19,897	–	–	–	–	**19,897**	11,622
Financial assets recognised through profit or loss							
– measured at fair value	418,937	1,256,811	–	–	–	**1,675,748**	1,782,336
Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,769,948	**2,769,948**	3,478,811
Investments in subsidiaries	–	–	–	–	4,811,000	**4,811,000**	4,811,000
Property, plant and equipment	–	–	–	–	15,315,772	**15,315,772**	13,564,578
Right-of-use assets	108,324	216,137	433,131	241,290	227,301	**1,226,183**	1,073,507
Investment properties	–	–	–	–	–	**–**	–
Goodwill and intangible assets	–	–	–	–	687,961	**687,961**	598,876
Deferred tax assets	–	–	–	1,446,249	–	**1,446,249**	–
Other assets	702,400	5,772,160	5,791,080	4,845,271	5,922,869	**23,033,780**	35,197,923
	5,694,082	7,245,108	6,224,211	6,532,810	29,734,851	**55,431,062**	64,474,567
Total assets	111,629,112	187,556,085	330,285,468	315,863,052	418,474,659	**1,363,808,376**	1,157,966,664

55. Maturity analysis (contd.)

Bank	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2020 Rs. '000**	Total as at 31 December 2019 Rs. '000
Liabilities with contractual maturity (interest-bearing liabilities)							
Due to banks	6,693,410	6,168,927	–	–	–	**12,862,337**	35,045,251
Financial liabilities at amortised cost							
– due to depositors	588,964,699	621,359,586	21,267,759	5,531,748	–	**1,237,123,791**	1,016,574,286
– due to other borrowers	8,132,070	27,521	–	–	–	**8,159,591**	21,203,242
Debt securities issued	–	6,773,753	13,677,000	6,323,000	5,000,000	**31,773,753**	26,691,711
	603,790,179	634,329,787	34,944,759	11,854,748	5,000,000	**1,289,919,472**	1,099,514,490
Other liabilities (non-interest-bearing liabilities)							
Derivative financial instruments	–	–	–	–	–	**–**	–
Financial liabilities recognised through profit or loss	–	–	–	–	–	**–**	–
Lease liabilities	52,272	179,154	402,807	284,954	355,527	**1,274,713**	1,066,882
Retirement benefit obligations	–	–	–	–	10,885,085	**10,885,085**	5,025,779
Current tax liabilities	–	3,128,643	–	–	–	**3,128,643**	–
Deferred tax liabilities	–	–	–	–	–	**–**	482,241
Other liabilities	4,731,531	1,730,746	142,589	62,758	31,593	**6,699,216**	5,951,464
Due to subsidiaries	3,750	–	–	–	–	**3,750**	547
Stated capital/Assigned capital	–	–	–	–	9,400,000	**9,400,000**	9,400,000
Statutory reserve fund	–	–	–	–	4,068,268	**4,068,268**	3,562,872
Retained earnings	–	–	–	–	11,883,168	**11,883,168**	8,194,507
Other reserves	–	–	–	–	26,546,061	**26,546,061**	24,767,882
	4,787,553	5,038,543	545,396	347,712	63,169,701	**73,888,904**	58,452,174
Total liabilities	608,577,732	639,368,330	35,490,155	12,202,460	68,169,701	**1,363,808,376**	1,157,966,664

*Represents the aggregate of the contractual maturities based on undiscounted cash flows.

55. Maturity analysis (contd.)

Group	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2020 Rs. '000**	Total as at 31 December 2019 Rs. '000
Assets with contractual maturity (interest-bearing asset)							
Cash and cash equivalents	2,138,439	–	–	–	–	**2,138,439**	1,428,686
Placements with banks	4,818,697	12,378,879	259,084	–	–	**17,456,660**	15,745,184
Financial assets recognised through profit or loss							
– measured at fair value	5,051,819	7,426,372	4,479,756	1,648,809	3,335,440	**21,942,196**	20,347,937
Financial assets at amortised cost							
– loans and advances	40,285,973	92,334,113	138,923,963	85,246,571	161,042,448	**517,833,067**	456,636,285
– debt and other instruments	60,501,050	73,235,453	177,037,119	224,263,256	223,558,056	**758,594,934**	619,567,786
Financial assets measured at fair value through other comprehensive income	165,861	1,511,229	9,539,508	–	1,935,284	**13,151,882**	1,011,706
	112,961,839	186,886,046	330,239,430	311,158,636	389,871,228	**1,331,117,178**	1,114,737,584
Other assets (non-interest-bearing assets)							
Cash and cash equivalents	4,460,156	–	–	–	–	**4,460,156**	4,136,138
Balances with central bank	6	–	–	–	–	**6**	58
Derivative financial instruments	19,897	–	–	–	–	**19,897**	11,622
Financial assets recognised through profit or loss							
– measured at fair value	418,937	1,256,811	–	–	–	**1,675,748**	1,782,337
Financial assets measured at fair value through other comprehensive income	–	–	138,011	–	2,769,948	**2,907,959**	3,614,876
Investments in subsidiaries	–	–	–	–	–	**–**	–
Property, plant and equipment	–	–	–	–	16,197,837	**16,197,837**	13,857,882
Right-of-use assets	111,632	219,950	442,787	248,661	248,495	**1,271,525**	1,130,868
Investment properties	–	–	–	–	237,077	**237,077**	333,315
Goodwill and intangible assets	–	–	216	–	693,944	**694,160**	599,612
Deferred tax assets	–	–	–	1,446,249	–	**1,446,249**	338
Current tax assets	–	–	–	–		**–**	–
Other assets	649,123	5,890,881	5,828,228	4,882,372	5,942,332	**23,192,936**	35,370,115
	5,659,751	7,367,642	6,409,242	6,577,282	26,089,633	**52,103,550**	60,837,161
Total assets	118,621,590	194,253,688	336,648,672	317,735,918	415,960,861	**1,383,220,728**	1,175,574,745

55. Maturity analysis (contd.)

Group	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2020 Rs. '000**	Total as at 31 December 2019 Rs. '000
Liabilities with contractual maturity (interest-bearing liabilities)							
Due to banks	7,170,778	6,168,927	–	–	–	13,339,705	36,139,122
Financial liabilities at amortised cost							
– due to depositors	588,965,281	621,765,218	21,310,105	5,587,588	41,093	1,237,669,284	1,015,635,421
– due to other borrowers	17,067,842	2,323,639	10,275	254,334	–	19,656,090	32,808,023
Debt securities issued	134,526	6,773,753	13,677,000	6,323,000	5,000,000	31,908,279	26,955,697
	613,338,427	637,031,537	34,997,380	12,164,922	5,041,093	1,302,573,359	1,111,538,263
Other liabilities (non-interest-bearing liabilities)							
Derivative financial instruments	–	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	–	–	–	–	–	–	–
Lease liabilities	53,635	182,516	409,218	290,021	385,487	1,320,877	1,121,441
Retirement benefit obligations	–	–	–	–	10,916,429	10,916,429	5,053,759
Current tax liabilities	–	3,705,537	–	–	–	3,705,537	565,704
Deferred tax liabilities	–	–	–	1,121	–	1,121	483,005
Other liabilities	4,060,107	1,739,545	225,847	274,287	954,203	7,253,989	7,430,415
Due to subsidiaries	–	–	–	–	–	–	–
Stated capital/Assigned capital	–	–	–	–	9,400,000	9,400,000	9,400,000
Statutory reserve fund	–	–	–	–	4,090,363	4,090,363	3,571,214
Retained earnings	–	–	–	–	16,085,184	16,085,184	10,964,046
Other reserves	–	–	–	–	27,873,870	27,873,870	25,446,899
	4,113,742	5,627,597	635,065	565,429	69,705,536	80,647,369	64,036,482
Total liabilities	617,452,169	642,659,134	35,632,445	12,730,351	74,746,629	1,383,220,728	1,175,574,745

*Represents the aggregate of the contractual maturities based on undiscounted cash flows.

56 Fair value of financial instruments

56.1 Financial instruments recorded at fair value

Accounting policy

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

i. Forward exchange purchases

The Bank values the forward exchange purchase contracts using the quoted prices available in the market for similar contracts.

ii. Foreign currency swaps

Derivative products (Foreign currency swaps/Cash flow hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial assets recognised through profit or loss

i. Government Treasury Bills and Bonds

Financial assets held for trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data published by Central Bank of Sri Lanka.

ii. Equity securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

Financial assets measured at fair value through other comprehensive income

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.

The unquoted equity securities have been fair valued using a valuation model based on observable data.

56.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1	Level 2	Level 3
Quoted (unadjusted) price in active markets for identical assets or liabilities.	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.	Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

		Bank			
As at 31 December 2020	Note	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	**19,897**	**19,897**
Financial assets recognised through profit or loss	20	–	–	–	–
Government Treasury Bills and Bonds		**9,545,998**	–	–	**9,545,998**
Equity securities		**1,675,748**	–	–	**1,675,748**
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		**12,501,874**	–	–	**12,501,874**
Equity securities – quoted		**2,514,374**	–	–	**2,514,374**
Equity securities – unquoted		–	**198,083**	–	**198,083**
Total		**26,237,994**	**198,083**	**19,897**	**26,455,974**

		Bank			
As at 31 December 2019	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	11,622	11,622
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		9,677,545	–	–	9,677,545
Equity securities		1,782,337	–	–	1,782,337
Financial assets at fair value through other comprehensive income	23				
Equity securities – quoted		3,208,101	–	–	3,208,101
Equity securities – unquoted		–	213,219	–	213,219
Total		14,667,983	213,219	11,622	14,892,824
Liabilities					
Derivative financial instruments		–	–	–	–

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

As at 31 December 2020	Note	Group			
		Level 1 Rs. '000	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Assets					
Derivative financial instruments					
Interest rate swaps	19	**–**	**–**	**19,897**	**19,897**
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		**21,638,390**	**–**	**–**	**21,638,390**
Equity securities		**1,675,748**	**–**	**–**	**1,675,748**
Unit Trusts		**303,806**	**–**	**–**	**303,806**
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		**13,149,882**	**–**	**–**	**13,149,882**
Equity securities – quoted		**2,652,221**	**–**	**–**	**2,652,221**
Equity securities – unquoted		**–**	**198,083**	**–**	**198,083**
Total		**39,420,048**	**198,083**	**19,897**	**39,638,027**

As at 31 December 2019	Note	Group			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	11,622	11,622
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		20,347,936	–	–	20,347,936
Equity securities		1,782,337	–	–	1,782,337
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		1,009,706	–	–	1,009,706
Equity securities – quoted		3,344,002	–	–	3,344,002
Equity securities – unquoted		–	213,219	–	213,219
Total		26,483,981	213,219	11,622	26,708,822

56. Fair value of financial instruments (contd.)

56.3 Reconciliation of movements between levels of fair value measurement hierarchy →

The Bank and the Group do not have movements between levels of hierarchy during the year. The Bank and the Group use Level 3 in fair value hierarchy to calculate fair value of derivative instruments and details of those instruments are given in the Notes 19 and 33 on pages 178 and 214.

56.4 Fair value of financial instruments →

As at 31 December	Note	Bank			
		2020		2019	
		Carrying amount Rs. '000	**Fair value Rs. '000**	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	**6,491,963**	**6,491,963**	5,376,715	5,376,715
Balances with central bank	17	**–**	**–**	–	–
Placement with banks	18	**13,253,499**	**13,253,499**	12,364,469	12,364,469
Derivative financial instruments	19	**19,897**	**19,897**	11,622	11,622
Financial assets recognised through profit or loss	20				
– measured at fair value		**11,221,746**	**11,221,746**	11,459,882	11,459,882
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**516,795,160**	**531,750,056**	454,394,957	454,394,957
– debt and other instruments	22	**754,233,344**	**820,266,932**	615,634,321	617,433,209
Financial assets measured at fair value through other comprehensive income	23	**15,271,822**	**15,271,822**	3,478,811	3,478,811
Total financial assets		**1,317,287,431**	**1,398,275,915**	1,102,720,778	1,104,519,665
Financial liabilities					
Due to banks	32	**12,862,337**	**12,862,337**	35,045,251	35,045,251
Derivative financial instruments	33	**–**	**–**	–	–
Financial liabilities recognised through profit or loss	34	**–**	**–**	–	–
Financial liabilities at amortised cost	35				
– due to depositors		**1,237,123,791**	**1,237,281,915**	1,016,574,286	1,015,205,274
– due to debt securities holders		**–**	**–**	–	–
– due to other borrowers		**8,159,591**	**8,159,591**	21,203,242	21,203,242
Debt securities issued	37	**31,773,753**	**32,535,514**	26,691,711	26,691,711
Total financial liabilities		**1,289,919,472**	**1,290,839,357**	1,099,514,490	1,098,145,478

56. Fair value of financial instruments (contd.)

56.4 Fair value of financial instruments (contd.)

As at 31 December		Group			
		2020		2019	
	Note	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	**6,598,595**	**6,598,595**	5,564,824	5,564,824
Balances with central bank	17	**6**	**6**	58	58
Placement with banks	18	**17,456,660**	**17,456,660**	15,745,184	15,745,184
Derivative financial instruments	19	**19,897**	**19,897**	11,622	11,622
Financial assets recognised through profit or loss	20				
– measured at fair value		**23,617,944**	**23,617,944**	22,130,273	22,130,273
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**517,833,067**	**532,787,962**	456,636,285	456,636,285
– debt and other instruments	22	**758,594,934**	**824,628,522**	619,567,786	621,193,858
Financial assets measured at fair value through other comprehensive income	23	**16,059,841**	**16,059,841**	4,626,582	4,626,582
Total financial assets		**1,340,180,943**	**1,421,169,426**	1,124,282,615	1,125,908,687
Financial liabilities					
Due to banks	32	**13,339,705**	**13,339,705**	36,139,122	36,139,122
Derivative financial instruments	33	**–**	**–**	–	–
Financial liabilities recognised through profit or loss	34	**–**	**–**	–	–
Financial liabilities at amortised cost	35				
– due to depositors		**1,237,669,284**	**1,237,827,407**	1,015,635,421	1,014,226,409
– due to debt securities holders		**–**	**–**	–	–
– due to other borrowers		**19,656,090**	**19,656,090**	32,808,023	32,808,023
Debt securities issued	37	**31,908,279**	**32,670,040**	26,955,697	26,955,697
Total financial liabilities		**1,302,573,358**	**1,303,493,242**	1,111,538,263	1,110,129,251

56.5 Determination of fair value →

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year). It is assumed that the carrying amount approximate their fair values. This assumption is also applied to savings deposits without specific maturity.

Long-term deposits accepted from customers for which periodical interest is paid and loan and receivables granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed rate financial instruments

Carrying amounts are considered as fair values for short-term credit facilities. In fair valuing held-to-maturity securities, rates published by the CBSL for similar trading securities were used. Loans and receivables with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenure above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year.

Unquoted equities in financial assets

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value can not be reliably estimated. There is no active market for these investments and Group intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data. Refer Note 23 (e) on page 197.

57 Capital management (as per regulatory reporting)

Objective

The Bank is required to manage its capital in order to meet the regulatory requirements and hold sufficient capital buffers to meet the strategic objectives which are aligned with the risk appetite of the Bank.

Regulatory capital

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III Direction in respect of regulatory capital and capital to cover any additional risk. The Basel III capital regulations were fully implemented by 1 January 2019, and will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Bank was considered as a Domestic Systemically Important Bank (D-SIB) until the issuance of Banking Act Direction No. 12 of 2019 on 20 December 2019 which resulted in the Bank being no longer a D-SIB.

The Bank currently uses the standardised approach for credit risk, standardised measurement method for market risk and basic indicator approach for operational risk. Basel III emphasises on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on Domestic Systemically Important Banks (D-SIBs). As per the CBSL Basel III Direction, the Bank and the Group are required to maintain a minimum Tier 1 Capital Ratio of 8.5% and a minimum Total Capital Ratio of 12.5% as at the end of year 2020.

However, with the outbreak of coronavirus disease (COVID-19) under extraordering regulatory measures taken by the Central Bank of Sri Lanka to provide flexibility to Licensed banks to support businesses and individuals affected by the COVID-19, the Monetary Board has given permission to D-SIBs and non D-SIBs to draw down their Capital Conservation Buffers by 100bps and 50bps out of the total of 250bps respectively.

Accordingly, the minimum requirement was reduced by 0.5% requiring the Bank to maintain a minimum Tier I capital Ratio of 8% and a minimum total capital ratio of 12% as at the end of year 2020.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank and the Group have always complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka.

Regulatory capital ratios

	Bank		Group	
As at 31 December	**2020**	2019 Restated	**2020**	2019 Restated
Common Equity Tier 1 capital ratio (minimum requirement – 2020 – 6.5%, 2019 – 7.0%)	**12.032**	13.492	**13.956**	15.372
Tier 1 capital ratio (minimum requirement – 2020 – 8.0%, 2019 – 8.5%)	**13.649**	13.492	**15.572**	15.372
Total capital ratio (minimum requirement – 2020 – 12.0%, 2019 – 12.5%)	**16.446**	15.821	**18.302**	17.743

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Income Statement in US Dollars

For the year ended 31 December	Bank			Group		
	2020 USD '000	2019 USD '000	Change %	**2020 USD '000**	2019 USD '000	Change %
Gross income	**683,349**	671,788	2	**696,702**	693,172	1
Interest income	**656,373**	654,161	0	**667,603**	663,098	1
Less: Interest expenses	**469,445**	495,307	(5)	**473,750**	500,653	(5)
Net interest income	**186,928**	158,855	18	**193,853**	162,445	19
Fee and commission income	**14,522**	6,949	109	**14,589**	6,995	109
Less: Fee and commission expenses	**828**	727	14	**860**	754	14
Net fee and commission income	**13,694**	6,222	(120)	**13,729**	6,241	120
Net gain/(loss) from trading	**6,824**	8,218	(17)	**9,351**	10,817	(14)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	**–**	–	–	**–**	–	–
Net gains/(losses) from derecognition of financial assets	**1,293**	121	965	**1,293**	121	965
Net other operating income	**4,337**	2,338	86	**3,866**	12,141	(68)
Total operating income	**213,076**	175,755	(21)	**222,092**	191,765	16
Less: Impairment charges	**26,112**	3,116	738	**26,428**	3,255	712
Net operating income	**186,964**	172,639	(8)	**195,664**	188,510	4
Less: Expenses						
Personnel expenses	**53,398**	55,967	(5)	**54,393**	56,298	(3)
Depreciation and amortisation expenses	**6,646**	5,746	16	**6,734**	5,775	17
Other expenses	**22,814**	24,651	(7)	**23,109**	24,581	(6)
Operating profit before VAT, NBT and DRL on financial services	**104,106**	86,275	21	**111,428**	101,857	9
Less: Value Added Tax (VAT) on financial services	**20,288**	16,782	21	**21,467**	17,678	21
Nation Building Tax (NBT) on financial services	**–**	2,017	(100)	**–**	2,114	(100)
Debt Repayment Levy (DRL) on financial services	**–**	9,836	(100)	**–**	9,935	(100)
Operating profit after VAT, NBT and DRL on financial services	**83,818**	57,640	45	**89,960**	72,130	25
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Profit before income tax	**83,818**	57,640	45	**89,960**	72,130	25
Less: Income tax expenses	**29,664**	22,482	32	**31,985**	24,125	33
Profit for the year	**54,154**	35,158	54	**57,975**	48,005	21
Profit attributable to:						
Equity holders of the Bank	**54,154**	35,158	54	**57,975**	48,005	21
Non-controlling interests	**–**	–	–	**–**	–	–
Profit for the year	**54,154**	35,158	54	**57,975**	48,005	21
Earnings per share on profit						
Basic earnings per ordinary share (USD)	**0.06**	0.04	54	**0.06**	0.05	21
Diluted earnings per ordinary share (USD)	**0.06**	0.04	54	**0.06**	0.05	21
Profit for the year	**54,154**	35,158	54	**57,975**	48,005	21

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank			Group		
	2020 USD '000	2019 USD '000	Change %	**2020 USD '000**	2019 USD '000	Change %
Profit for the year	**54,154**	35,158	54	**57,975**	48,005	21
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	**–**	–	–	**–**	–	–
Net gains/(losses) on cash flow hedges	**–**	–	–	**–**	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	**–**	–	–	**–**	–	–
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Debt instruments at fair value through other comprehensive income	**1,466**	705	108	**1,767**	1,252	41
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	**(1,293)**	(76)	1,610	**(1,293)**	(76)	1,610
Deferred tax effect on above	**(48)**	(176)	(73)	**(48)**	(176)	(73)
Total items that will be reclassified to income statement	**124**	453	(73)	**426**	1,001	(57)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	**(4,158)**	(1,789)	132	**(4,151)**	(1,765)	135
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	**–**	–	–	**–**	–	–
Remeasurement of post-employment benefit obligations	**(35,813)**	(19,032)	88	**(35,797)**	(19,040)	88
Deferred tax effect on above	**10,028**	5,329	88	**10,028**	5,329	88
Remeasurement of post-employment benefit obligations (net of taxes)	**(25,785)**	(13,703)	88	**(25,769)**	(13,711)	88
Changes in revaluation surplus	**7,943**	–	100	**10,295**	–	100
Deferred tax effect on above	**(2,224)**	–	100	**(2,224)**	–	100
Changes in revaluation surplus (net of taxes)	**5,719**	–	100	**8,071**	–	100
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Total items that will not be reclassified to income statement	**(24,225)**	(15,492)	56	**(21,849)**	(15,475)	41
Other comprehensive income for the year, net of taxes	**(24,100)**	(15,039)	60	**(21,423)**	(14,475)	48
Total comprehensive income for the year	**30,054**	20,120	49	**36,553**	33,530	9
Attributable to:						
Equity holders of the Bank	**30,054**	20,120	49	**36,553**	33,531	9
Non-controlling interests	**–**	–	–	**–**	–	–
Total comprehensive income for the year	**30,054**	20,120	49	**36,553**	33,531	9
US Dollars conversion rate (Rs.)	**186.6500**	181.4992		**186.6500**	181.4992	

Statement of Financial Position in US Dollars

As at 31 December	Bank			Group		
	2020 USD '000	2019 USD '000	Change %	**2020 USD '000**	2019 USD '000	Change %
Assets						
Cash and cash equivalents	**34,781**	29,624	17	**35,353**	30,660	15
Balances with central banks	**–**	–	–	**–**	–	–
Placements with banks	**71,007**	68,124	4	**93,526**	86,751	8
Derivative financial instruments	**107**	64	66	**107**	64	66
Financial assets recognised through profit or loss						
– measured at fair value	**60,122**	63,140	(5)	**126,536**	121,930	4
– designated at fair value	**–**	–	–	**–**	–	–
Financial assets at amortised cost						
– loans and advances	**2,768,793**	2,503,565	11	**2,774,353**	2,515,913	10
– debt and other instruments	**4,040,897**	3,391,940	19	**4,064,264**	3,413,612	19
Financial assets measured at fair value through other comprehensive income	**81,821**	19,167	327	**86,043**	25,491	238
Investments in subsidiaries	**25,776**	26,507	(3)	**–**	–	–
Investments in associates and joint ventures						
Property, plant and equipment	**82,056**	74,736	10	**86,782**	76,352	14
Right of used assets	**6,569**	5,915	11	**6,812**	6,231	9
Investment properties	**–**	–	–	**1,270**	1,836	(31)
Goodwill and intangible assets	**3,686**	3,300	12	**3,719**	3,304	13
Deferred tax assets	**7,748**	–	100	**7,748**	2	416,406
Other assets	**123,406**	193,929	(36)	**124,259**	194,878	(36)
Total assets	**7,306,769**	6,380,010	15	**7,410,774**	6,477,024	14
Liabilities						
Due to banks	**68,912**	193,088	(64)	**71,469**	199,114	(64)
Derivative financial instruments	**–**	–	–	**–**	–	–
Financial liabilities recognised through profit or loss	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost						
– due to depositors	**6,628,041**	5,600,985	18	**6,630,963**	5,595,812	18
– due to debt securities holders	**–**	–	–	**–**	–	–
– due to other borrowers	**43,716**	116,823	(63)	**105,310**	180,761	(42)
Lease liability	**6,829**	5,878	16	**7,077**	6,179	15
Debt securities issued	**170,232**	147,062	16	**170,952**	148,517	15
Retirement benefit obligations	**58,318**	27,690	111	**58,486**	27,845	110
Current tax liabilities	**16,762**	–	100	**19,853**	3,117	537
Deferred tax liabilities	**–**	2,657	(100)	**6**	2,661	(100)
Other provisions	**–**	–	–	**–**	–	–
Other liabilities	**35,892**	32,791	9	**38,864**	40,939	(5)
Due to subsidiaries	**20**	3	566	**–**	–	–
Total liabilities	**7,028,721**	6,126,977	15	**7,102,981**	6,204,945	14
Equity						
Stated capital/Assigned capital	**50,362**	51,791	(3)	**50,362**	51,791	(3)
Statutory reserve fund	**21,796**	19,630	11	**21,915**	19,676	11
Retained earnings	**63,666**	45,149	41	**86,178**	60,408	43
Other reserves	**142,224**	136,463	4	**149,338**	140,204	7
Total shareholders' equity	**278,048**	253,033	10	**307,793**	272,079	13
Non-controlling interests	**–**	–	–	**–**	–	–
Total equity	**278,048**	253,033	10	**307,793**	272,079	13
Total equity and liabilities	**7,306,769**	6,380,010	15	**7,410,774**	6,477,024	14
Contingent liabilities and commitments	**127,442**	57,054	123	**127,781**	58,907	117
US Dollars conversion rate (Rs.)	**186.6500**	181.4992		**186.6500**	181.4992	

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Basel III – Minimum Disclosure Requirements under Pillar III

Key Regulatory Ratios – Capital and Liquidity

	Bank		Group	
As at 31 December *Item*	**2020**	2019 (Restated)	**2020**	2019 (Restated)
Regulatory capital (Rs. '000)				
Common equity Tier 1	**37,227,074**	34,491,071	**43,189,629**	38,987,425
Tier 1 capital	**42,227,074**	34,491,071	**48,189,629**	38,987,425
Total capital	**50,882,209**	40,445,964	**56,636,854**	45,002,535
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement : 2020 – 6.5%, 2019 – 7.0%)	**12.032**	13.492	**13.956**	15.372
Tier 1 capital ratio (minimum requirement : 2020 – 8.0%, 2019 – 8.5%)	**13.649**	13.492	**15.572**	15.372
Total capital ratio (minimum requirement : 2020 – 12.0%, 2019 – 12.5%)	**16.446**	15.821	**18.302**	17.743
Leverage ratio (minimum requirement : 3%)	**6.64**	5.76	**7.21**	6.16
Regulatory liquidity				
Statutory liquid assets (Rs. '000)	**805,242,421**	568,490,585	**N/A**	N/A
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic banking unit (%)	**69.10**	60.20	**N/A**	N/A
Off-shore banking unit (%)				
Liquidity coverage ratio (%) – rupee (minimum requirement – 2020 – 90%, 2019 – 100%)	**311.02**	278.12	**N/A**	N/A
Liquidity coverage ratio (%) – all currency (minimum requirement – 2020 – 90%, 2019 – 100%)	**307.22**	276.64	**N/A**	N/A
Net stable funding ratio (NSFR) (%) (minimum requirement – 2020 – 90%, 2019 – 100%)	**169**	175	**N/A**	N/A

Monetary Board of Central Bank of Sri Lanka (CBSL) introduced extraordinary regulatory measures to Licensed Banks to provide flexibility due to the outbreak of COVID-19.

1. Permit Non-D-SIBs to draw down their capital conservation buffer by 50bps out of the total of 250bps which reduced the minimum total capital requirement to 12% from 12.5%.
2. Permit to maintain LCR and NSFR ratios at 90% upto 30 June 2021.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Basel III – Computation of Capital Ratios

As at 31 December *Item*	Bank **2020** **Rs. '000**	 2019 (Restated) Rs. '000	Group **2020** **Rs. '000**	 2019 (Restated) Rs. '000
Common equity Tier 1 (CET1) Capital after adjustments	**37,227,074**	34,491,071	**43,189,629**	38,987,425
Total common equity Tier 1 (CET1) capital	**42,929,613**	39,461,297	**47,663,891**	42,694,358
Equity capital (stated capital)/Assigned capital	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Reserve fund	**4,068,268**	3,562,872	**4,090,363**	3,571,214
Published retained earnings/(Accumulated retained losses)	**6,813,679**	3,406,540	**11,015,735**	6,176,143
Published accumulated other comprehensive income (OCI)	**(444,220)**	–	**(428,052)**	(38,843)
General and other disclosed reserves	**23,091,885**	23,091,885	**23,585,844**	23,585,844
Unpublished current year's profit/(losses) and gains reflected in OCI	**–**	–	**–**	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to CET1 capital	**5,702,537**	4,970,226	**4,474,260**	3,706,932
Goodwill (net)	**–**	–	**–**	–
Intangible assets (net)	**687,961**	598,876	**694,160**	599,063
Revaluation losses of property, plant and equipment	**32,902**	19,183	**32,902**	19,183
Deferred tax assets (net)	**1,446,249**	–	**1,445,128**	338
Cash flow hedge reserve	**–**	–	**–**	–
Investments in the capital of banking and financial institutions where the Bank does not own more than 10% of the issued ordinary share capital of the entity	**2,220,843**	3,010,494	**2,302,071**	3,088,348
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	**1,314,583**	1,341,673	**–**	–
Additional Tier 1 (AT1) capital after adjustments	**5,000,000**	–	**5,000,000**	–
Total Additional Tier 1 (AT1) capital	**5,000,000**	–	**5,000,000**	–
Qualifying Additional Tier 1 capital instruments	**5,000,000**	–	**5,000,000**	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to AT1 Capital	**–**	–	**–**	–
Investment in own shares	**–**	–	**–**	–
Tier 2 capital after adjustments	**8,655,136**	5,954,893	**8,447,226**	6,015,110
Total Tier 2 capital	**8,655,136**	7,716,942	**8,615,002**	7,844,414
Qualifying Tier 2 capital instruments	**1,200,000**	2,400,000	**1,200,000**	2,400,000
Revaluation gains	**4,243,803**	3,565,866	**4,243,803**	3,565,866
Loan loss provisions	**3,211,332**	1,751,076	**3,171,199**	1,878,548
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to Tier 2 capital	**–**	1,762,049	**167,777**	1,829,304

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

As at 31 December Item	Bank 2020 Rs. '000	Bank 2019 (Restated) Rs. '000	Group 2020 Rs. '000	Group 2019 (Restated) Rs. '000
Investment in own shares	**–**	–	**–**	–
Investments in the capital of financial institutions and where the Bank does not own more than 10% of the issued capital carrying voting rights of the issuing entity	**–**	1,762,049	**167,777**	1,829,304
CET 1 capital	**37,227,074**	34,491,071	**43,189,629**	38,987,425
Total Tier 1 capital	**42,227,074**	34,491,071	**48,189,629**	38,987,425
Total capital	**50,882,209**	40,445,964	**56,636,854**	45,002,535
Total risk weighted assets (RWA)	**309,389,659**	255,642,540	**309,461,534**	253,629,244
RWAs for credit risk	**256,906,592**	210,653,003	**253,695,892**	205,807,138
RWAs for market risk	**11,658,100**	10,434,636	**13,702,867**	12,576,004
RWAs for operational risk	**40,824,967**	34,554,901	**42,062,775**	35,246,101
CET 1 capital ratio (including Capital Conservation Buffer, countercyclical capital buffer and surcharge on D-SIBs (%)	**12.032**	13.492	**13.956**	15.372
of which: capital conservation buffer (%)	**2.000**	2.500	**2.000**	2.500
of which: countercyclical buffer (%)	**0.000**	0.000	**0.000**	0.000
of which: capital surcharge on D-SIBs (%)	**0.000**	0.000	**0.000**	0.000
Total Tier 1 capital ratio (%)	**13.649**	13.492	**15.572**	15.372
Total capital ratio (including capital conservation buffer, Countercyclical capital buffer and surcharge on D-SIBs) (%)	**16.446**	15.821	**18.302**	17.743
of which: capital conservation buffer (%)	**2.000**	2.500	**2.000**	2.500
of which: countercyclical buffer (%)	**0.000**	0.000	**0.000**	0.000
of which: capital surcharge on D-SIBs (%)	**0.000**	0.000	**0.000**	0.000

The difference arises between the retained earnings balance in Basel III Capital Adequacy Computation and the financial reporting are due to the following:

(1) The Bank's practice was to transfer the current year retained earnings to the General Reserve until end of 2015 and it was changed to maintain part of the current year retained earnings to a separately maintained Retained Earnings Reserve with effect from 31 December 2016. Therefore one of the differences between the retained earnings balance in the financial reporting and the Basel III Capital Adequacy Computation is the accumulated actuarial loss of Rs. 5.351 Bn. on Retirement Benefit Plan which has been adjusted to the General Reserve prior to 2016.

(2) Further, with the adoption of the SLFRS 9, only 75% of the First Day Impact of Rs. 1.126 Bn. considered in Basel III Capital Adequacy Computation as the bank is allowed to stagger the First Day Impact throughout a transitional period of four years by CBSL, whereas First Day Impact in full is considered in the financial reporting.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Computation of Leverage Ratio

As at 31 December *Item*	Bank		Group	
	2020 **Rs. '000**	2019 (Restated) Rs. '000	**2020** **Rs. '000**	2019 (Restated) Rs. '000
Tier 1 Capital	**42,227,074**	34,491,071	**48,189,629**	38,987,425
Total Exposures	**635,552,006**	599,031,468	**668,821,873**	632,667,960
On-Balance Sheet Items (excluding derivatives, and securities financing transactions, but including collateral)	**609,120,761**	539,928,473	**631,111,094**	559,989,238
Derivative Exposures	**27,855**	30,271	**27,855**	30,271
Securities Financing Transaction Exposures	**22,033,567**	54,004,335	**33,301,815**	67,580,062
Other Off-Balance Sheet Exposures	**4,369,823**	5,068,389	**4,381,108**	5,068,389
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	**6.64**	5.76	**7.21**	6.16

Basel III – Computation of Liquidity Coverage Ratio (Bank) – All Currency

As at 31 December	2020		2019	
Item	**Total unweighted value Rs. '000**	**Total weighted value Rs. '000**	Total unweighted value Rs. '000	Total weighted value Rs. '000
Total Stock of high-quality liquid assets (HQLA)	**787,769,145**	**785,407,233**	573,969,613	571,476,200
Total adjusted Level 1A assets	**783,105,664**	**783,105,664**	571,043,917	571,069,898
Level 1 assets	**783,045,321**	**783,045,321**	568,492,786	568,492,786
Total adjusted Level 2A assets	–	–	700,000	595,000
Level 2A assets	–	–	700,000	595,000
Total adjusted Level 2B assets	**4,723,824**	**2,361,912**	4,776,827	2,388,413
Level 2B assets	**4,723,824**	**2,361,912**	4,776,827	2,388,413
Total cash outflows	**1,284,821,024**	**268,722,079**	1,050,359,131	219,206,052
Deposits	**948,077,093**	**94,807,709**	782,572,753	78,257,275
Unsecured wholesale funding	**296,451,080**	**164,727,076**	235,430,751	135,531,774
Secured funding transactions	**10,198,687**	–	19,658,863	–
Undrawn portion of committed (Irrevocable) facilities and other contingent funding obligations	**23,773,255**	**2,879,601**	8,882,727	1,603,602
Additional requirements	**6,320,909**	**6,320,909**	3,814,037	3,814,037
Total cash inflows	**28,836,496**	**13,073,071**	24,866,670	12,624,833
Maturing secured lending transactions backed by collateral	**9,644,259**	**2,924,475**	5,985,702	2,855,380
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 days	**14,167,958**	**10,148,596**	14,223,114	9,769,453
Operational deposits	**5,024,278**	–	4,657,854	–
Other cash inflows	–	–	–	–
Liquidity Coverage Ratio (%) (stock of high quality liquid assets/ total net cash outflow over the next 30 calendar days)*100	–	**307.22**	–	276.64

Basel III Computation of Net Stable Funding Ratio (NSFR)

As at 31 December *Item*	2020 Rs. '000	2019 Rs. '000
Total Available Stable Funding	**862,500,205**	749,467,117
Required Stable Funding – On Balance Sheet Assets	**510,653,406**	427,439,753
Required Stable Funding – Off Balance Sheet Items	**1,089,405**	396,971
Total Required Stable Funding	**511,742,811**	427,836,724
Net stable funding ratio (NSFR) (%)	**169**	175

Main Features of Regulatory Capital Instruments

Description of the capital instrument	
Issuer	National Savings Bank
Unique identifier	
Governing law(s) of the instrument	Sri Lanka
Original date of issuance	29 December 2016
Par value of instrument	100
Perpetual or dated	Dated
Original maturity date	29 December 2021
Amount recognised in regulatory capital (Rs. '000)	1,200,000
Accounting classification (equity/liability)	Liability
Issuer call subject to prior supervisory approval	
Optional call date, contingent call dates and redemption amount (Rs. '000)	N/A
Subsequent call dates	N/A
Coupons/dividends	
Fixed or floating dividend/coupon	Fixed
Coupon rate and any related index	13%
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	
If convertible, conversion trigger(s)	N/A
If convertible, fully or partially	N/A
If convertible, mandatory or optional	N/A
If convertible, conversion rate	N/A

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Description of the capital instrument	
Issuer	National Savings Bank
Unique identifier	
Governing law(s) of the instrument	Sri Lanka
Original date of issuance	27 October 2020
Par value of instrument	100
Perpetual or dated	Perpetual
Original maturity date	–
Amount recognised in regulatory capital (Rs. '000)	5,000,000
Accounting classification (equity/liability)	Liability
Issuer call subject to prior supervisory approval	
Optional call date, contingent call dates and redemption amount (Rs. '000)	N/A
Subsequent call dates	N/A
Coupons/dividends	
Fixed or floating dividend/coupon	Floating/Fixed
Coupon rate and any related index	Six (06) Months Treasury Bill Rate +1.50%/9.25%(Fixed)
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	
If convertible, conversion trigger(s)	N/A
If convertible, fully or partially	N/A
If convertible, mandatory or optional	N/A
If convertible, conversion rate	N/A

Summary discussion on adequacy/meeting current and future capital requirements

For summary discussion on adequacy/meeting current and future capital requirements, refer Risk and Capital Management Report on pages 92 to 114.

Credit Risk under Standardised Approach (Bank)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2020	Exposures before Credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset class	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (ii) (%)
Claims on Central Government and CBSL	744,056,651	–	737,332,844	–	758,625	0.10
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	162,010,877	15,563,612	8,961,477	–	2,919,510	32.58
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	31,048,669	2,000,000	31,048,669	1,000,000	12,719,905	39.69
Claims on financial institutions	5,712,504	500,000	5,712,504	250,000	3,227,532	54.13
Claims on corporates	8,648,573	–	8,648,573	–	4,098,364	47.39
Retail claims	274,287,183	2,243,733	245,052,291	132,170	152,227,244	62.09
Claims secured by residential property	75,209,448	984,203	75,209,448	492,101	38,823,357	51.28
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	9,779,441	–	9,779,441	–	8,507,580	86.99
Higher risk categories	3,496,417	–	3,496,417	–	8,741,043	250.00
Cash items and other assets	24,362,613	2,495,550	24,362,613	2,495,550	24,883,434	92.65
Total	1,338,612,373	23,787,099	1,149,604,277	4,369,821	256,906,592	22.26

Note:
(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.
(ii) RWA Density – Total RWA/exposures post CCF and CRM.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Credit Risk under Standardised Approach (Group)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2020	Exposures before Credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset class	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (ii) (%)
Claims on Central Government and CBSL	746,952,695	–	741,259,702	–	758,625	0.1
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	162,011,040	15,563,612	8,961,641	–	2,919,674	32.6
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	35,389,543	2,000,000	35,389,543	1,000,000	14,550,466	40.0
Claims on financial institutions	6,376,997	500,000	6,376,997	250,000	3,559,778	53.7
Claims on corporates	8,782,670	–	8,782,670	–	4,166,649	47.4
Retail claims	276,026,014	2,276,153	246,778,051	142,655	153,642,313	62.2
Claims secured by residential property	75,497,137	985,803	75,497,137	492,901	39,111,846	51.5
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	10,084,609	–	10,084,609	–	8,816,313	87.4
Higher risk categories	–	–	–	–	–	–
Cash items and other assets	25,654,066	2,495,550	25,654,066	2,495,550	26,170,228	93.0
Total	1,346,774,770	23,821,119	1,158,784,416	4,381,106	253,695,892	21.8

Note:
(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.
(ii) RWA Density – Total RWA/Exposures post CCF and CRM.

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Bank)

As at 31 December 2020 Description	(Post CCF and CRM)							
Asset classes / Risk weight	0% Rs. '000	20% Rs. '000	50% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and CBSL	733,539,720	3,793,124	–	–	–	–	–	737,332,844
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	7,552,459	–	–	1,409,018	–	–	8,961,477
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	12,413,154	18,796,481	–	839,033	–	–	32,048,668
Claims on financial institutions	–	–	5,469,945	–	492,559	–	–	5,962,504
Claims on corporates	–	5,232,940	727,714	–	2,687,919	–	–	8,648,572
Retail claims	42,214,803	–	–	202,969,658	–	–	–	245,184,462
Claims secured by residential property	–	–	73,756,385	–	1,945,165	–	–	75,701,550
Claims secured by commercial real estate	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	–	–	2,719,380	–	6,884,403	175,658	–	9,779,441
Higher risk categories	–	–	–	–	–	–	3,496,417	3,496,417
Cash items and other assets	1,884,576	112,691	–	–	24,860,896	–	–	26,858,164
Total	777,639,100	29,104,368	101,469,905	202,969,658	39,118,993	175,658	3,496,417	1,153,974,098

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Group)

As at 31 December 2020 *Description*	(Post CCF and CRM)							
Risk weight / *Asset classes*	0% Rs. '000	20% Rs. '000	50% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and CBSL	737,466,577	3,793,124	–	–	–	–	–	741,259,702
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	7,552,459	–	–	1,409,182	–	–	8,961,641
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	14,685,074	20,182,036	–	1,522,434	–	–	36,389,543
Claims on financial institutions	–	–	6,134,438	–	492,559	–	–	6,626,997
Claims on corporates	–	5,232,940	859,338	–	2,690,392	–	–	8,782,669
Retail claims	42,219,493	28,198	–	204,145,367	527,649	–	–	246,920,706
Claims secured by residential property	–	–	73,756,385	–	2,233,654	–	–	75,990,039
Claims secured by commercial real estate	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	–	–	2,732,535	–	7,156,128	195,945	–	10,084,609
Higher risk categories	–	–	–	–	–	–	–	–
Cash items and other assets	1,889,235	112,691	–	–	26,147,690	–	–	28,149,616
Total	**781,575,300**	**31,404,486**	**103,664,731**	**204,145,367**	**42,179,688**	**195,945**	**–**	**1,163,165,521**

Market Risk under Standardised Measurement Method

As at 31 December *Item*	Bank RWA 2020 Rs. '000	Group RWA 2020 Rs. '000
(a) RWA for interest rate risk	**5,680,428**	**7,723,287**
General Interest Rate Risk	5,680,428	7,723,287
(i) Net long or short position	5,680,428	7,723,287
(ii) Horizontal disallowance		
(iii) Vertical disallowance		
(iv) Options		
Specific interest rate risk	–	–
(b) RWA for equity	**3,772,895**	**3,774,803**
(i) General Equity Risk	2,013,303	2,014,433
(ii) Specific Equity Risk	1,759,593	1,760,370
(c) RWA for Foreign Exchange and Gold	**2,204,780**	**2,204,780**
Capital charge for market risk [(a)+(b)+(c)] *CAR	**1,398,972**	**1,644,344**

Operational Risk under Basic Indicator Approach

Bank

Capital Charge	Capital Charge Factor %	Gross income as at 31 December 2020 1st year Rs. '000	 2nd year Rs. '000	 3rd year Rs. '000	Rs. '000
The basic indicator approach	15	26,298,782	31,997,836	39,683,315	
Capital charge					4,898,996
Risk weighted amount for operational risk					40,824,967

Group

Capital Charge	Capital Charge Factor %	Gross income as at 31 December 2020 1st year Rs. '000	 2nd year Rs. '000	 3rd year Rs. '000	Rs. '000
The basic indicator approach	15	26,319,163	33,259,381	41,372,127	
Capital charge					5,047,533
Risk weighted amount for operational risk					42,062,775

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

Bank

As at 31 December 2020	a	b	c	d	e
Item	Carrying values as reported in Published Financial Statements Rs. '000	Carrying values under Scope of Regulatory Reporting Rs. '000	Subject to Credit Risk Framework Rs. '000	Subject to Market Risk Framework Rs. '000	Not subject to Capital Requirements or subject to Deduction from Capital Rs. '000
Assets	**1,363,808,375**	**1,367,069,205**	**1,148,993,332**	**23,398,138**	**194,677,734**
Cash and cash equivalents	6,491,963	13,211,845	6,459,535	28,504	6,723,807
Balances with Central Bank	–	–	–	–	–
Placements with banks	13,253,499	12,941,210	12,941,210	–	–
Derivative financial instruments	19,897	–	–	–	–
Financial assets recognised through profit or loss measured at fair value/other financial assets held for trading	11,221,746	25,590,478	–	23,369,635	2,220,843
Financial assets designated at fair value through profit or loss	–	–	–	–	–
Financial assets at amortised cost:	–	–	–	–	–
– Loans and advances	–	–	–	–	–
– Loans and receivables to banks	15,969,540	13,301,655	13,301,655	–	–
– Loans and receivables to other customers	500,825,620	502,810,289	320,525,999	–	182,284,291
– Debt and other instruments/financial Investments held to maturity	754,233,344	734,345,883	734,345,883	–	–
Financial assets measured at fair value through OCI/financial investments available for sale	15,271,822	–	–	–	–
Investments in subsidiaries	4,811,000	4,811,000	3,496,417	–	1,314,583
Investments in associates and joint ventures	–	–	–	–	–
Property, plant and equipment	16,003,733	15,315,772	15,315,772	–	–
Investment properties	–	–	–	–	–
Intangible assets	–	687,961	–	–	687,961
Deferred tax assets	1,446,249	1,446,249	–	–	1,446,249
Other assets	24,259,962	42,606,862	42,606,862	–	–

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories (Contd.)

Bank (Contd.)

As at 31 December 2020	a	b	c	d	e
Item	Carrying values as reported in Published Financial Statements Rs. '000	Carrying values under Scope of Regulatory Reporting Rs. '000	Subject to Credit Risk Framework Rs. '000	Subject to Market Risk Framework Rs. '000	Not subject to Capital Requirements or subject to Deduction from Capital Rs. '000
Liabilities	**1,311,910,880**	**1,300,693,701**	–	–	–
Due to banks	12,862,337	12,820,345	–	–	–
Derivative financial instruments	–	–	–	–	–
Financial liabilities recognised through profit	–	–	–	–	–
Financial liabilities at amortised cost:	–	–	–	–	–
– Due to other customers	1,237,123,791	1,204,971,608	–	–	–
– Due to debt securities holders	–	–	–	–	–
– Due to other borrowers	8,159,591	8,152,543	–	–	–
Debt securities issued	20,685,990	20,000,000	–	–	–
Retirement benefit obligations	10,885,085	–	–	–	–
Current tax liabilities	3,128,643	–	–	–	–
Deferred tax liabilities	–	–	–	–	–
Other provisions	–	–	–	–	–
Other liabilities	7,973,930	43,745,455	–	–	–
Due to subsidiaries	3,750	3,750	–	–	–
Subordinated term debt	11,087,763	11,000,000	–	–	–
Off-balance sheet liabilities	**23,787,099**	**23,787,099**	**4,369,823**	–	–
Guarantees	1,979,393	1,979,393	–	–	–
Performance bonds	–	–	–	–	–
Letters of credit	264,341	264,341	132,170	–	–
Other contingent items	–	–	–	–	–
Undrawn loan commitments	19,047,815	19,047,815	1,742,101	–	–
Other commitments	2,495,550	2,495,550	2,495,550	–	–
Shareholders' equity	**9,400,000**	**9,400,000**	–	–	–
Equity capital (stated capital)/assigned capital	–	–	–	–	–
of which amount eligible for CET 1	9,400,000	9,400,000	–	–	–
of which amount eligible for AT 1	–	–	–	–	–
Retained earnings	11,883,168	–	–	–	–
Accumulated other comprehensive income	(434,929)	–	–	–	–
Other reserves	31,049,259	56,975,504	–	–	–
Total shareholders' equity	**51,897,497**	**66,375,504**	–	–	–

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Explanations of Differences between Accounting and Regulatory Exposure Amounts (Bank)

The carrying value of loans and advances in the published financial statements has been subject to impairment provisions based on the principles of "expected credit loss" as per SLFRS 9 (Refer Note 21 of the Financial Statements for details) while the carrying value of regulatory reporting is as per the Banking Act Direction No. 4 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning" issued by the CBSL are "time/delinquency based". Bank assess the impairment of loans and advances individually or collectively. The impairment allowance is based on the credit losses expected to arise by considering the change in the risk of default occurring over the remaining life of the financial instrument.

As per the Banking Act Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio, Financial assets recognised through profit or loss – measured at fair value and Financial assets measured at fair value through OCI are classified as Held for trading under regulatory reporting and accrued interest classified under other assets category. Financial assets at amortised cost – debt and other instruments are classified as Held to maturity investments (Banking Book) under regulatory reporting and accrued interest classified under other assets category. The "Fair value" is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A variety of valuation techniques combined with the range of plausible market parameters as at a given point in time may still generate unexpected uncertainty beyond fair value. Refer Note 56 of the Financial Statements for details on valuation methodologies.

Further, all financial instruments except equity considered in regulatory reporting differs with the published financial statements since impairment allowances based on expected losses under SLFRS 9 were netted off for publication purposes.

A "Day 1 difference" is recognised as per SLFRS 9 in contrary to regulatory reporting, when the transaction price differs from the fair value of other observable current market transactions in the same instrument E.g. Employee loans below market rates.

Derivatives are financial instruments which derive values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The fair value of these derivative financial instruments is determined using forward pricing models. The positive fair value changes of these financial instruments as at reporting date are reported as assets while the negative fair value changes are reported as liabilities. The details of derivative financial instruments have been disclosed in Note 19 to the financial statements. Derivatives are disclosed under Off Balance sheet in the regulatory reporting.

Bank's Risk Management Approach and Risk Management Related to Key Risk Exposures

Bank's Risk Management Approach and Risk Management Related to Key Risk Exposures are explained in Risk and Capital Management Report on pages 92 to 114.

D-SIB Assessment Exercise – 2020

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Size indicator	
Section 1 – Total exposures	
Total exposures measure	1,410,777
Interconnectedness Indicators	
Section 2 – Intra-Financial system assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	40,792
(i) Funds deposited	22,730
(ii) Lending	18,062
b. Holdings of securities issued by other financial institutions	4,878
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	700
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	20
Intra-financial system assets	46,390
Section 3 – Intra-Financial system liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	7,362
(i) Funds deposited	896
(ii) Borrowings	6,466
b. Net negative current exposure of securities financing transactions with other financial institutions	417
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	–
Intra-financial system liabilities	7,778
Section 4 – Securities outstanding	
Securities outstanding	31,135
Substitutability/Financial institution infrastructure indicators	
Section 5 – Payments made in the reporting year (excluding intragroup payments)	
Payments activity	231,398
Section 6 – Assets Under custody	
Assets under custody	–
Section 7 – Underwritten transaction	
Underwritten transaction	–
Section 8 – Trading volume	
Trading Volume (Number of shares)	44,836,393

D-SIB Assessment Exercise – 2020

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Complexity indicators	
Section 9 – Notional amount of over-the-counter (OTC) Derivatives	
OTC derivatives	2,000
Section 10 – Level 2 assets	
Level 2 assets	4,726
Section 11 – Trading and available for sale (AFS) securities	
a. debt instruments	34,788
b. equity instruments	4,586
c. derivatives	20
Section 12 – Cross-Jurisdictional liabilities	
Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)	7,791
Section 13 – Cross-Jurisdictional claims	
Cross-jurisdictional claims (excluding derivatives and intragroup claims)	1,813

Other Disclosure Requirements as required by CBSL

Disclosure requirements under the prescribed format issued by the Central Bank of Sri Lanka for preparation of Annual Financial Statements of licensed specialised banks.

Disclosure requirements		Description	Page number/s
1.	**Information about the significance of financial instruments for financial position and performance**		
1.1	Statement of financial position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Notes to the Financial Statements: Note 15 – Analysis of financial instruments by measurement basis	174 to 176
1.1.2	Other disclosures		
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Significant accounting policies: Note 2.5.1.4.5 Financial assets measured at FVPL Note 2.5.1.5.1 Financial liabilities at fair value through profit or loss	 151 152
	ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 2.5.1.7 Reclassification of financial assets and liabilities	153
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the Financial Statements: Note 22 – Financial assets at amortised cost – Debt and other instruments	192 to 193
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note 16 – Cash and cash equivalent Note 18 – Placement with banks Note 21 (d) – Movements in impairment during the year Note 22 (b) – Movement in impairment during the year	177 177 to 178 185 to 187 193
	v. Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have financial instruments with multiple embedded derivatives	–
	vi. Breaches of terms of loan agreements.	None	–
1.2	**Statement of comprehensive income**		
1.2.1	Disclosures on items of income, expense, gains and losses	Notes to the Financial Statements: Notes 3-13 to the Financial Statements	161 to 172
1.2.2	Other disclosures		
	i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the Financial Statements: Note 4 – Net interest income	161 to 163
	ii. Fee income and expense.	Notes to the Financial Statements: Note 5 – Net fee and commission income	163 and 164
	iii. Amount of impairment losses by class of financial assets.	Notes to the Financial Statements: Note 10 – Impairment charges	167 and 168
	iv. Interest income on impaired financial assets.	Notes to the Financial Statements: Note 4 (a) interest income	162

Other Disclosure Requirements as required by CBSL

Disclosure requirements		Description	Page number/s
1.3	**Other disclosures**		
1.3.1	Accounting policies for financial instruments.	Note 2.5 – Significant accounting policies – recognition of assets and liabilities Financial instruments	150 to 159
1.3.2	Information on financial liabilities designated at FVPL.	The Bank/Group has not designated any financial liability at FVPL. Notes to the Financial Statements: Note 2.5.1.5.1 – Financial liabilities at fair value through profit or loss	152
1.3.3	Investments in equity instruments designated at FVOCI		
	i. Details of equity instruments that have been designated as at FVOCI and the reasons for the designation.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	194 to 198
	ii. Fair value of each investment at the reporting date.	Notes to the Financial Statements: Note 23 (d) – Quoted investments – Equity securities – Bank and Group Note 23 (e) – Unquoted investments – Equity securities	196 and 197 197 and 198
	iii. Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date.	Notes to the Financial Statements: Note 9 – Net other operating income	166
	iv. Transfer cumulative gain or loss within equity during the period and the reasons for those transfers.	Income Statement, Statement of Other Comprehensive Income and Statement of Changes in Equity	134 to 141
	v. If investments in equity instruments measured at FVOCI are derecognised during the reporting period: – reasons for disposing of the investments – fair value of the investments at the date of derecognition – the cumulative gain or loss on disposal	Income Statement, Statement of Other Comprehensive Income and Statement of Changes in Equity	134 to 141
1.3.4	Reclassification of financial assets		
	i. For all reclassifications of financial assets in the current or previous reporting period: – date of reclassification – detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements – the amount reclassified into and out of each category	During the period the Bank did not reclassify financial assets	–
	ii. For reclassifications from FVTPL to amortised cost or FVOCI: – the effective interest rate (EIR) determined on the date of reclassification – the interest revenue recognised	During the period, the Bank has not classified financial instruments from FVPL to amortised cost or FVOCI	–

Other Disclosure Requirements as required by CBSL

Disclosure requirements		Description	Page number/s
	iii. For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: – The fair value of the financial assets at the reporting date – The fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	During the period, the Bank has not classified financial instruments from FVOCI to amortised cost, or from FVPL to amortised cost or FVOCI	–
1.3.5	Information on hedge accounting	Notes to the Financial Statements: Note 19 – Derivative financial instruments	178 and 179
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with:		
	i. Comparable carrying amounts.	Notes to the Financial Statements: Note 56.4 – Fair value of financial instruments	280 and 281
	ii. Description of how fair value was determined.	Notes to the Financial Statements:	
		Note 2.1.12.2 – Fair value of financial instruments	146
		Note 2.3 – Fair value measurement	148 and 149
		Note 56.2 – Determination of fair value and fair value hierarchy	277 to 279
		Note 56.5 Determination of fair value	281 and 282
	iii. The level of inputs used in determining fair value.	Notes to the Financial Statements: Note 56 – Fair value of financial instruments	277 to 282
	iv. a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	No movements between levels of fair value hierarchy during the year Note 56.3 – Reconciliation of movements between levels of fair value measurement hierarchy	280
	v. Information if fair value cannot be reliably measured.	Notes to the Financial Statements: Note 23 (e) – Unquoted investments – equity securities Note 56.5 – Determination of fair value	197 and 198 281 and 282
2.	**Information about the nature and extent of risks arising from financial instruments**		
2.1	**Qualitative disclosures**		
2.1.1	Risk exposures for each type of financial instrument.	Notes to the Financial Statements: Note 54 – Financial risk management Risk and capital management report	245 to 272 92 to 114
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the Financial Statements: Note 54 – financial risk management Risk and capital management report	245 to 272 92 to 114
2.1.3	Changes from the prior period.	No major policy changes during the period under review	

Other Disclosure Requirements as required by CBSL

Disclosure requirements		Description	Page number/s
2.2	**Quantitative disclosures.**		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Notes to the Financial Statements:	
		Note 54 – Financial risk management	245 to 272
		Risk and capital management report	92 to 114
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		
	i. Credit risk		
	(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Notes to the Financial Statements:	
		Note 54.1.1 – Credit quality analysis	251 to 259
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Notes to the Financial Statements:	
		Note 54.1.1 – Credit quality analysis	251 to 259
	(c) Information about collateral or other credit enhancements obtained or called.	Notes to the Financial Statements:	
		Note 54.1.1. (b) – Management of the credit portfolio	253 and 254
	(d) Credit risk management practices:	Notes to the Financial Statements:	
	– CRM practices and how they relate to the recognition and measurement ECL, including the methods, assumptions and information used to measure ECL.	Note 2.5.2.3 – Overview of the ECL principles	155
		Note 10 – Impairment charges	167 and 168
	– Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes.	Note 10 – Impairment charges	167 and 168
	– How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition	Note 2.5.2.7 – Significant increase in credit risk	156 and 157
	– The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions.	Note 2.5.2.8 – Definition of default and credit impaired assets	157
	– How instruments are grouped if ECL are measured on a collective basis.	Note 10 – Impairment charges	167 and 168
	– How the bank determines that financial assets are credit-impaired.	Note 2.5.2 – Impairment of financial assets (Policy applicable from 1 January 2019)	154 to 157
	– The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery.	Note 21 (d) – Movements in impairment during the year	185 to 187
	– How the modification requirements have been applied.	Note 2.5.1.9 – Modification of financial assets and financial liabilities	154

Other Disclosure Requirements as required by CBSL

Disclosure requirements	Description	Page number/s
(e) ECL calculations:		
– Basis of the inputs, assumptions and the estimation techniques used when estimating ECL.	Note 2.5.2.4 – The calculation of ECL	155 and 156
– How forward-looking information has been incorporated into the determination of ECL.	Note 2.5.2.6 – Forward looking information	156
– Changes in estimation techniques or significant assumptions made during the reporting period.	Note 2.2 – Changes in accounting policies	147 and 148
(f) Amounts arising from ECL:		
– Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance.	Note 16 – Cash and cash equivalent	177
	Note18 – Placement with banks	177 and 178
	Note 21 (d) – Movements in impairment during the year	185 to 187
– Explain the reasons for changes in the loss allowances in the reconciliation.	Note 22 (b) – Movement in impairment during the year	193
(g) Collateral:	Notes to the Financial Statements:	
– Bank's maximum exposure to credit risk at the reporting date	Note 54.1.1 (a) – Net exposure to Credit risk by class of financial assets	251 and 252
– Description of collateral held as security and other credit enhancements	Note 54.1.1 (b) – Management of the credit portfolio	253 and 254
(h) Written-off assets	Notes to the Financial Statements:	
	Note 21 (d) – Movements in impairment during the year	185 to 187
i. Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Risk and capital management report	92 to 114
ii. Liquidity risk		
(a) A maturity analysis of financial liabilities.	Notes to the Financial Statements:	
	Note 55 – Maturity analysis	273 to 276
(b) Description of approach to risk management.	Notes to the Financial Statements:	
	Note 54 – Financial risk management	245 to 272
	Risk and capital management report	92 to 114
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks	Risk and capital management report	92 to 114
iii. Market risk		
(a) A sensitivity analysis of each type of market risk to which the Bank exposed.	Notes to the Financial Statements:	
	Note 54.3 – Market risk	262 to 272
	Risk and capital management report	92 to 114
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	Risk and capital management report	92 to 114
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Risk and capital management report	92 to 114

Other Disclosure Requirements as required by CBSL

Disclosure requirements		Description	Page number/s
	iv. Operational risk Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks	Risk and capital management report	92 to 114
	v. Equity risk in the banking book (a) Qualitative disclosures:		
	• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	194 to 198
	• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	194 to 198
	(b) Quantitative disclosures: • Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the Financial Statements: Note 20 – Financial assets recognised at through profit or loss Note 23 – Financial assets at fair value through other comprehensive income	180 to 182 194 to 198
	• The types and nature of investments		
	• The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the Financial Statements: Note 6 – Net Gain/(loss) from trading Note 8 – Net Gain/(loss) from derecognition of financial assets	165 166
	vi. Interest rate risk in the banking book (a) Qualitative disclosures:		
	• Nature of interest rate risk in the banking book (IRRBB) and key assumptions	Notes to the Financial Statements: Note 54 – Financial risk management Risk and capital management report	245 to 272 92 to 114
	(b) Quantitative disclosures:		
	• The increase/(decline) in earnings or economic value (or relevant measure used by Management) for upward and downward rate shocks according to Management's method for measuring IRRBB, broken down by currency (as relevant).	Risk and capital management report	92 to 114
2.2.3	Information on concentrations of risk	Notes to the Financial Statements: Note 54 Financial risk management Risk and capital management report	245 to 272 92 to 114

Other Disclosure Requirements as required by CBSL

Disclosure requirements		Description	Page number/s
3.	**Other disclosures**		
3.1	**Capital structure**		
	i. Qualitative disclosures		
	• Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016 Risk and capital management report	287 to 300
	ii. Quantitative disclosures		
	(a) The amount of Tier 1 capital, with separate disclosure of –	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016	287 to 300
	• Paid-up share capital/common stock		
	• Reserves		
	• Non-controlling interests in the equity of subsidiaries		
	• Innovative instruments		
	• Other capital instruments		
	• Deductions from Tier 1 capital		
	(b) The total amount of Tier 2 and Tier 3 capital		
	(c) Other deductions from capital		
	(d) Total eligible capital		
3.1.2	**Capital adequacy**		
	i. Qualitative disclosures		
	• A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Risk and capital management report	92 to 114
	ii. Quantitative disclosures		
	(a) Capital requirements for credit risk, market risk and operational risk.	Risk and capital management report	92 to 114
	(b) Total and Tier 1 capital ratio.	Risk and capital management report	92 to 114

Statistical Indicators 2011-2020

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Operating Results (Rs. Mn.)										
Gross income	**127,547**	121,929	111,902	107,996	87,399	79,282	77,890	65,573	52,903	46,545
Interest income	**122,512**	118,730	110,507	103,579	86,390	78,128	74,023	64,248	52,531	47,096
Interest expenses	**87,622**	89,898	85,622	78,445	60,923	51,146	52,642	54,141	39,142	29,296
Net interest income	**34,890**	28,832	24,885	25,134	25,467	26,983	21,380	10,107	13,389	17,800
Other income	**4,881**	3,067	1,254	4,308	872	1,043	3,798	1,292	347	(578)
Operating expenses, impairment and VAT	**24,126**	21,438	18,197	15,307	13,036	14,991	14,706	9,120	7,396	7,967
Profit before tax	**15,645**	10,462	7,941	14,135	13,303	13,034	10,472	2,279	6,340	9,255
Income tax	**5,537**	4,080	3,441	4,419	3,805	4,361	3,606	1,095	2,578	3,193
Profit after tax	**10,108**	6,381	4,500	9,716	9,498	8,672	6,867	1,184	3,763	6,062
Contribution to the Government	**10,745**	11,665	7,536	13,440	19,251	11,016	11,043	4,731	6,327	7,970
Dividends paid	**1,000**	2,000	500	5,111	12,026	2,800	4,000	3,000	2,823	3,213
Assets (Rs. Mn.)										
Cash and short-term Funds	**6,492**	5,377	3,435	3,850	4,620	3,240	1,927	1,546	1,466	1,398
Loans and advances	**516,795**	454,395	422,895	375,704	323,811	271,751	222,696	166,420	162,477	137,440
Investments	**798,811**	647,760	565,841	593,333	554,235	549,743	534,485	465,766	329,532	318,474
Property, plant and equipment	**17,230**	15,237	13,466	12,396	7,277	7,025	5,594	5,692	5,264	5,247
Other assets	**24,480**	35,198	31,209	25,696	21,761	16,320	14,764	14,943	10,075	3,415
Total	**1,363,808**	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466	654,368	508,813	465,974
Liabilities and Shareholder's Funds (Rs. Mn.)										
Total deposits	**1,237,124**	1,016,574	839,574	737,213	657,280	595,776	554,060	501,890	457,650	421,849
Repo/borrowings/subordinated liabilities	**52,796**	82,940	144,313	224,143	213,162	207,101	191,192	120,561	22,958	16,270
Differed taxation	**0**	482	582	507	416	504	270	143	123	96
Other liabilities	**21,991**	12,045	9,280	10,019	8,600	12,274	10,684	9,557	4,314	4,707
Shareholders' funds	**51,897**	45,925	43,095	39,096	32,246	32,424	23,260	22,217	23,767	23,052
Total	**1,363,808**	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466	654,368	508,813	465,974
Performance ratios (%)										
Income growth	**4.61**	8.96	3.62	23.57	10.24	1.79	18.78	23.95	13.66	(7.04)
Interest margin	**2.77**	2.63	2.43	2.61	2.89	3.32	2.98	1.74	2.75	4.09
NIM/gross income	**27.35**	23.65	22.24	23.27	29.14	34.03	27.4	15.41	25.3	38.24
Personnel cost/gross income	**7.81**	8.33	8.28	6.38	7.13	7.46	6.16	6.42	7.71	8.89
Overheads (excluding prov.)/ Gross income	**12.25**	12.96	12.72	10.33	11.99	13.28	11.89	10.85	11.98	13.45
Profit before tax/gross income	**12.27**	8.58	7.10	13.09	15.22	16.44	13.44	3.48	11.98	19.88
Contribution to the GOSL/gross income	**8.42**	9.57	6.73	12.44	22.03	13.89	14.18	7.22	11.96	17.12
Cost to deposits	**1.72**	2.26	2.22	2.10	2.12	2.25	2.14	1.61	1.65	1.99
Cost to income with financial taxes	**48.61**	65.57	66.47	49.58	50.13	46.07	44.76	67.71	52.80	45.44
Cost to income without financial taxes	**39.12**	49.35	54.18	37.75	39.59	37.41	36.69	62.24	46.06	36.35
Effective taxation rate	**47.98**	59.25	59.77	44.89	40.99	43.94	45.10	59.22	48.22	43.98
Return on average shareholder's funds (ROE)	**20.67**	14.25	10.95	27.24	29.37	31.15	30.20	5.15	16.07	26.61
Return on average assets (ROA)	**1.24**	0.95	0.78	1.47	1.51	1.60	1.46	0.39	1.30	2.13
NPL (Gross)	**2.79**	1.57	1.44	1.34	1.55	3.46	7.61	6.54	2.38	2.57
NPL (Net)	**2.12**	1.17	1.22	1.22	1.47	3.35	7.56	6.66	1.78	1.93
Total provision coverage	**38.56**	50.75	42.59	38.68	29.61	13.65	5.30	4.34	25.60	24.99
Provision coverage (Stage 3)	**30.38**	26.20	30.66	28.41	–	–	–	–	–	–

Statistical Indicators 2011-2020

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Assets and liabilities related ratios (%)										
Assets growth	**17.78**	11.68	2.56	10.89	7.50	8.80	19.12	28.61	9.19	15.23
Loans growth	**13.73**	7.45	12.56	16.03	19.16	22.03	33.82	2.43	18.22	(65.23)
Deposits growth	**21.70**	21.08	13.88	12.16	10.32	7.53	10.39	9.67	8.49	15.76
Government Securities to deposits – Bank	**62.66**	60.89	60.94	62.40	66.68	73.92	69.51	78.92	70.58	73.47
Loans to deposits	**41.77**	44.70	50.37	50.96	49.27	45.61	40.19	33.16	35.50	32.58
Deposits as a percentage of assets	**90.71**	87.79	80.97	72.92	72.09	70.25	71.08	76.70	89.94	90.53
Liquidity ratios (%)										
Liquid assets ratio	**69.10**	60.20	54.88	73.44	72.56	81.08	91.50	92.74	69.49	74.41
Rupee liquidity coverage ratio (minimum 90%)	**311.02**	278.12	245.06	377.57	379.26	441.19	–	–	–	–
All currency liquidity coverage ratio (minimum 90%)	**307.22**	276.64	321.29	376.18	393.96	445.88	–	–	–	–
Net stable funding ratio (minimum 90%)	**168.54**	175.18	146.67	–	–	–	–	–	–	–
Capital and related ratios (%)										
Capital adequacy – Tier I (minimum 5%)	–	–	–	–	12.53	17.90	20.46	18.50	20.40	20.10
Capital adequacy – Tier II (minimum 10%)	–	–	–	–	14.68	16.40	18.98	16.72	19.10	17.70
Basel III – Tier I (minimum 8%)	**13.65**	13.49	13.08	11.93	11.31	–	–	–	–	–
Basel III – Total capital (minimum 12%)	**16.45**	15.82	15.90	15.31	13.86	–	–	–	–	–
Employee statistics and ratios										
Number of employees	**4,641**	4,715	4,512	4,470	4,384	3,636	3,358	2,943	3,129	3,275
Profit per employee (Rs. '000)	**3,371**	2,219	1,760	3,162	3,034	3,585	3,119	774	2,026	2,826
Deposit per employee (Rs. '000)	**266,564**	215,604	186,076	164,925	149,927	163,855	164,997	170,537	146,261	128,809
Other information (Nos.)										
Number of branches	**259**	256	255	253	250	245	236	229	219	210
Post offices/Sub post offices	**4,063**	4,063	4,062	4,062	4,061	4,063	4,063	4,063	4,053	4,058
Number of account holders (Million)	**21.3**	20.9	20.4	19.9	19.3	18.8	18.3	17.9	17.4	17.0

Correspondent Banks

Banca Popolare
Piazza Garibaldi 16
23100,
Sondrlom SO, Italy
POSOIT22
www.info@popso.it
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+390342528204

Bank of Tokyo Mitsubishi Japan
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Marunouchi, Chiyoda-ku, Tokyo,
100-8388,
Japan
BOTKGPJT
www.bk.mufg.jp
Tel: +81-3-3240-1111

Citi Bank – NY
388, Greenwich Street New York,
NY 10013, USA
CITIUS33
www.citibank.com
Tel: +800-285-3000

Commerz Bank – German
Commerzbank AG,
Kaiser PLATZ.60311, Frankfurt am Main
Germany
COBADEFF
www.fi.commerzbank.com
Tel: +496913626650

DBS Bank – Singapore
DBS Bank Ltd,
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Singapore 486029
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Emirates NBD Bank PJSC
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Erste Group Bank AG
Am Belvedere 1,
1100, Vienna, Austria
www.erstebank.at
Tel: +43 50100 10100

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Seoul-Republic of Korea
KOEXKRSE
www.hanabank.com
Tel: +82-02-2002-1111

Kookmin Bank
9-1,Namdaemunno 2-GA, Jung-Gu,
Seoul 100-092, South Korea
CZNBKRSE
www.kbstar.com
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Mingerstrasse 20,
54, Italy
UNICRITMM
www.unicreditgroup.eu
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Seoul, South Korea
HVBKKRSE
www.wooribank.com
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Post Finance Bank – Switzerland
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3030 Berne,
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Tel: +971229666

Al Ansari Exchange
Al Ansari Exchange LLC
Al Ansari Business Centre
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P.O.Box 6176, Dubai, UAE
Tel: +97143772890/+97143772788

Al Fardan Exch Qatar
Al Fardan Centre,
Grand Hamad Avenue,
P.O. Box: 339, Doha, Qatar
Tel: +97444537755

Al Fardan Exch UAE
POB 498, Liwa Street,
Abu Dhabi, UAE

Al Mulla Exchange
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Safat 13002, Kuwait
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Al Rajhi Bank
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Riyadh, 1111,
Kingdom of Saudi Arabia
www.alrajhibank.com.sa
Tel: +96614603333

Al Rostamani
The Maze Tower, Level 18,
Sheikh Zayed RD,
POB 10072, Dubai, UAE
Tel: +97144543200/+97144543284

Al Dar for Exchange Works
AlDar for Exchange works,
IBA bldg C Ring,
Doha, Qatar

Arab National Bank – KSA
Building King Faysal Street,
Al Mon raba Area 56921,
Saudi Arabia
Tel: +966114029000

Arabian Exchange
Mercure Grand Hotel
(Sofitel Shopping Complex),
Ground Floor, Mushaireb Street,
P.O. Box: 3535, Doha, Qatar
Tel: +97444438300

Bahrain Exchange
Bahrain Exchange Company
W.L.L M Floor Al Hajery Building
P.O. Box: 29149,
Safat 13152, Kuwait
Tel: +96522089039/+96522280520

Bahrain Finance Company
(Ez remit is a product of BFC)
P.O. Box: 243, 3rd Floor,
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Manama, Bahrain
Tel: +97339958195

Bank Al Bilad
Corporate Banking Division
P.O. Box: 140 Riyadh.
11411 Saudi Arabia
Tel: +96692000/002

City Exchange Company
City Exchange Co. LLC,
Al wathan, Doha, Qatar
City-Exchange Main Branch and
Head Office
Tel: +974 4476 9777

City International Exchange
Abdullah Dashti Building
Near KPTC Bus Depot.,
Al Mirqab Abdullah Mubarak Street
P.O. Box: 21804
Safat 13079, Kuwait
Tel: +9652448507/2441845

Delma Exchange
304, Al Montazah Tower,
Zayed the 1st street, Khalidiya,
Abu Dhabi, UAE
Tel: +97124915757

Doha Bank – Qatar
Doha Bank Head Office Tower,
Corniche Street West Bay
P.O. Box 3818, Doha, Qatar
Tel: +97444257683

Dollarco Exchange Co Ltd.
P.O. Box: 26270
Safat 13123, Kuwait
Tel: +96522412767/22454713

Gmoney Trans Co Ltd.
305-2, Jong ro, Jongno-gu,
Seoul, Korea
www.gmoneytrans.com
Tel: +82-2-1670-4565

Habib Qatar Exchange
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Grand Hamad Street, Doha, Qatar
Tel: +97444425151/44328853

Index Exchange/
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Office 201, 2nd Floor,
Sons of Jassim Darwish Building,
Zayad 1st street, Khalidiyah
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Tel: +97126272656

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Instant Cash FZE
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UAE
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Sultanate of Oman
Tel: +97126547019

Majan Exchange
P.O. Box: 583
P.C. 117 Ruwi,
Sultanate of Oman
Tel:+ 96824794017/18

National Exchange Company
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Rome, Italia
Tel:+ 390644341221(DIRECT)

Oman & UAE Exchange Centre
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P.C. 131 Muscat,
Sultanate of Oman
Tel:+ 96824796533

Samba Financial Group
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Kingdom of Saudi Arabia
Tel: +966112117473/+966112117424

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London, SE 1 7HB,
United Kingdom
Tel: +44 20 7407 1800

Exchange Companies

Transfast
44 Wall Street, 4th Floor
New York NY10005
Trans-Fast GCC 903
Al Thurayya 2, Dubai Media City,
Dubai, UAE
Tel: +971 4 4587251

UAE Exchange – Abu Dhabi
UAE Exchange Centre LLC,
P.O. BOX: 170, 5th Floor,
Tamouh Tower (Building No. 12),
Marina Square, Al Reem Island,
Abu Dhabi, UAE
Tel: +97124945406

Unistream
20, Verhnyaya Maskovka Street,
Building 2, 127083,
Moscow, Russia
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Valutrans
Valutrans SPA Via M.Gioia,
168 20125 Milan, Italy
Tel: +39 0291431306

Xpress Money
X Press Money Services Limited
6th Floor, Al Ameri Bldg TECOM,
P.O. Box: 643996
Sheikh Zayad Road, Dubai, UAE
Tel: +97148186000/+97148186000
Ext: 6132/+97148186227

Hanpass Co., Ltd
4th Floor, 92,
Achasan-ro (Gwangmyeong Tower),
Seongdong-gu,
Seoul, South Korea
www.hanpass.com
Tel: +82 2 3409 1540

Japan Remit Finance Co., Ltd.,
3F Modulo
Hamamatsucho BLDG, 1-2-15,
Hamamatsucho, Minato-ku,
Tokyo, 105-0013, Japan
www.jpremit.com
Tel: +81 3 5733 4337

Western Union LLC
www.corporate.westernunion.com

Ria Financial Services Inc – USA
6565 Knott Ave, Buena Park,
CA 90620, United States
Tel: +1 562-345-2100

Eurogiro Members

Deutsche Post
Deutsche Post Bank Ag Friedrich-Ebert-Allee 53113 Bonn, Germany
PBNKDEFF
www.postbank.de
Tel: +114-126, 49 22855005500

Israel Postal Company Ltd.
217, Jaffa Street,
Jerusalem, 91999, Israel
www.israelpost.co.il

Korea Post
(The 8th building of Government Complex) 19, Doum-5ro,
339-012 Sejong City,
Republic of Korea
www.koreapost.go.kr

La Banque Postale France
115 rue de sevres,
CP. P210 75275,
Paris Cedex 06,
France
Tel: +33157754947

Corporate Information

Name of the Bank
National Savings Bank

Legal Form
A Government-owned bank incorporated in Sri Lanka by the National Savings Bank Act No. 30 of 1971 and was granted the status of the Licensed Specialised Bank in terms of the Banking Act No. 30 of 1988.

Registered Office and Head Office
"Savings House",
No. 255, Galle Road,
Colombo 03,
Sri Lanka.
Tel: +94 11 257 3008-15
Fax: +94 11 257 3178
Customer Care Hotline: +94 11 237 9379
Short Code: 1972
E-mail: nsbgen@nsb.lk
Website: http://www.nsb.lk
Swift Code: NSBALKLX
Bank Code: 7719
Tax Payer Identification Number (TIN): 409046266

Service Outlets
259 Branches
361 ATMs/CRMs

Agency Network
653 Post Offices and 3,410 Sub-Post Offices throughout the Island.

Local Ratings
[SL] AAA (Stable) credit rating by the ICRA Lanka

Board of Directors
Ms Keasila Jayawardena – Chairperson
Mr Eranga Jayewardene – Director
Mr U G R Ariyaratne – Director (Ex Officio)
Dr M K C Senanayake – Director (Ex Officio)
Ms Manohari Abeyesekera – Director
Mr M T J Perera – Director
Mr H K D Lakshman Gamini – Director

General Manager/CEO
Mr M P A W Peiris

Board Secretary
Ms Anupama Muhandiram

Board Audit Committee (BAC)
Ms Manohari Abeyesekera – Chairperson
Dr M K C Senanayake
Mr H K D Lakshman Gamini

Board Integrated Risk Management Committee (BIRMC)
Dr M K C Senanayake – Chairperson
Mr Eranga Jayewardene
Mr M T J Perera

Board Human Resource and Remuneration Committee (BHRRC)
Ms Keasila Jayawardena – Chairperson
Mr U G R Ariyaratne
Mr H K D Lakshman Gamini

Board Nomination Committee (BNC)
Mr U G R Ariyaratne – Chairperson
Dr M K C Senanayake
Mr Eranga Jayewardene

Board Credit Committee (BCC)*
Ms Keasila Jayawardena – Chairperson
Ms Manohari Abeyesekera
Mr M T J Perera

Board IT Strategic Committee (BITSC)*
Ms Keasila Jayawardena – Chairperson
Mr U G R Ariyaratne
Mr Eranga Jayewardene

Board Marketing Strategic Committee (BMSC)*
Ms Keasila Jayawardena – Chairperson
Mr Eranga Jayewardene
Ms Manohari Abeyesekera
Mr M T J Perera
Mr H K D Lakshman Gamini

*Rescinded with effect from 8 February 2021

Compliance Officer
Ms I K L Sasi Mahendran

Auditors
Auditor General

Accounting Year
31 December

Subsidiaries of National Savings Bank
Name of the Company
NSB Fund Management Co. Ltd.

Registered Office and Head Office
No. 400, Galle Road,
Colombo 03,
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Tel.: +94 11 242 5010-12, +94 11 256 5957
Fax: +94 11 256 4706, +94 11 257 4387
E-mail: nsbfmc@nsb.lk
Website: http://www.nsb.lk/fund-management
Swift Code: NSBFLKLXXXX
Tax Payer Identification Number (TIN): 134008512

Board of Directors
Ms Keasila Jayawardena – Chairperson
Mr U G R Ariyaratne – Director
Ms Manohari Abeyesekera – Director
Mr M T J Perera – Director
Mr W O Rodrigo – Director
Mr M P A W Peiris – Director

Chief Executive Officer
Mr D L P Abayasinghe

Auditors
Auditor General

Company Secretary
Ms Farzana Aniff

Name of the Company
Sri Lanka Savings Bank Limited

Registered Office and Head Office
No. 265,
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Colombo 07,
Sri Lanka.
Tel.: +94 11 267 4700-3, +94 11 269 1721-2
Fax: +94 11 267 4705-6
E-mail: info@slsbl.lk
Tax Payer Identification Number (TIN): 134013370

Board of Directors
Ms Keasila Jayawardena – Chairperson
Mr H D P Gamage – Director
Mr N P Imbulagoda – Director
Mr Janaka Arunashantha – Director
Mr M T J Perera – Director

General Manager/CEO
Mr M A Sujith Fernando

Auditors
Auditor General

Company Secretary
Ms A R Ramya Piyasekara

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